

PITMAN'S ECONOMICS SERIES

General Editor : PROFESSOR J. H. JONES, M.A.

Professor of Economics and Head of the Commerce Department, University of Leeds

THE ECONOMIC FUNCTIONS OF THE STATE

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Department, University of Leeds*

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LONDON
SIR ISAAC PITMAN & SONS, LTD.
PARKER STREET, KINGSWAY, W.C.2
BATH, MELBOURNE, TORONTO, NEW YORK

1931

PRINTED IN GREAT BRITAIN
AT THE PITMAN PRESS, BATH

PREFACE

FEW questions are of greater urgency than the problem of State interference in economic life, for on a right solution depends the welfare of every civilized community. The times are gone indeed when students of politics could be sharply divided between "liberals" opposed to interference in any form and "socialists" who visualized every form of economic activity directed by some department in Whitehall. We have realized how impossible is any such ready-made answer, and are now chiefly concerned, whatever our political labels, with discussing the precise extent to which some measure of control has become essential, and with the best methods by which such control may best be effected.

The object of this work is first to state the problem as simply and clearly as possible, to describe its origins and what fundamental principles it raises. It then shows how the problem presents itself to the minds of our own day and endeavours to indicate a line of approach which, while neither original nor conclusive, may help towards a clarification of the issues involved and serve as an introductory guide to the student who would approach the question with an open mind.

The work was originally written as a series of thirty fortnightly articles, a method which involved some repetition; and although it has been revised for

publication in book form, the removal of all traces of its earlier character would have involved a complete rewriting which the author's present occupations made impossible.

R. H. SOLTAU

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THE ECONOMIC FUNCTIONS OF THE STATE

CHAPTER I

THE STATE AND OURSELVES

ANY ONE of my readers who has been, or intends going, abroad, knows to his cost that he cannot enter or leave this island, or any other country, without being the bearer of a document, termed a passport, that certifies him to be a British subject or a citizen of some duly-constituted State.

This membership of a State is, as a matter of fact, one of the most immediate realities of daily life. Our birth has to be declared to a State official by a doctor who has received from the State the right to practise his profession; we are vaccinated in our infancy because of a State regulation to that effect; the State forces our parents to send us to a school which is either wholly or partly controlled by another series of State regulations; our education finished, at the age settled for us by the State, or perhaps later, we enter the world of business, to find that the number of hours we work, the amount of air we are given to breathe in shop or factory, the system of weights and measures used, are all fixed by law, and the same laws fix deductions from our wages for various forms of insurances, whether we approve of insurance or not. Starting business on our own, we find the State helping or hindering us at every turn;

there are more than a dozen occupations which we may not take up without a State licence ; the State enforces the contracts into which we enter ; it prosecutes us for adulteration of the goods we manufacture, or helps us to recover damages if we are defrauded ; it interferes with our desire to buy freely certain foreign articles and puts duties on some of our own manufactures ; in fact, not only does it take our money in this indirect way, but it takes it directly by levying a tax on all our earnings. In addition to interfering at every point with the way in which we make and spend our money, it claims the right to turn us into soldiers, whatever the risk to our lives ; and when we think we are at last at peace from its multifarious activities, we discover our death has to be reported to its agents, and that the very place where our coffin or cremation urn will be deposited is hedged round with regulations from this ever-interfering authority.

Its Distinctive Features. The State is, of course, not the only community of which we are members. We belong to a family—we may belong to a church, to a trade union, to a club, to groups of all kinds. But membership of a State has certain features of its own.

In the first place it is *involuntary*. We do not choose the State into which we are born, although in certain cases we may transfer our membership to another by naturalization. And, what is more important, we are bound to belong to *some* State. Special circumstances may place an individual in the position of having lost his membership of one State without having acquired membership of another, but that occurrence is too rare to need taking into consideration. Members of some State we have to be and have to remain if we want to lead an ordinary civilized life. We cannot divest ourselves of such membership, however much we may wish

to ; we are held as in a vice, even to the possibility of having to sacrifice our lives to its existence if it chooses to turn us into soldiers. We may resign our membership of church, trade union, or club ; we may ignore family solidarity ; we may not resign our citizenship except by the State's permission, and, even then, only to take on the citizenship of some other country.

In the second place, it is *exclusive*. We cannot belong to two States at the same time. No breadth of outlook, no international sympathies, can enable us to enjoy double citizenship. This is due to the fact that States are, in the world of to-day, competing units, and that each must be free to command the full allegiance and loyalty of its members. We have only to imagine the wretched situation of a man who, in 1914, would have been both a Britisher and a German to realize the impossibility of a divided allegiance in the present-day world. This does not mean that an international reorganization is not conceivable, in which the nature and powers of States would be so altered that multiple membership would become practicable—but such an idea is too far removed from present-day conceptions of citizenship to be worth discussing now.

In the third place, membership of the State is *compulsory* ; that is, the State has power to enforce its demands—brute, material, coercive force—and it is the only group which has such a power over its members. In the last resort it can compel ; or at least (for you can never *compel* a man to do something he is determined not to do, whatever be the cost of refusal) it can punish disobedience to its laws by imprisonment and even by death. Now, no other group has such power. Your family may disown you, your church or union may cast you out if you refuse to conform to any of its rules or traditions, but they cannot deprive you of two things,

your property and your personal liberty, without themselves breaking the laws and being liable to punishment by the State. On the other hand, you may break off all intercourse with your relatives, leave your church or union, and they can do nothing; they have no legal hold on you; as against them you are a free agent, within the limits, of course, of any agreements into which you may freely have entered with them.

But, as against the State, you are not a free agent. You may not leave it; you must obey its laws, however absurd you may think them to be; you owe it a life-long allegiance, however unworthy you consider it; you must pay the taxes it levies, whatever you feel about their rightness; you may only leave its territory with its permission. You are only free to do what it does not prevent you from doing, and it may choose to interfere at every point of your life, to decide the clothes you may not wear, the kind of woman you may not marry, the sort of religion you may not follow. You only break its rules at your peril; retribution follows surely and (nowadays) swiftly.

Its Duties Towards Us. There is, of course, another side to this picture. The advantages are not all on one side. If you owe allegiance to the State, it owes you protection; it has obligations of all kinds to you, and supplies you with all kinds of useful things, from drains to education. Every law which you obey is at the same time a law that defends you; every limitation on your liberty to interfere with others is also a limitation on their liberty to interfere with you; the money taken from your pocket is expended on matters of general utility, in which you have your full share. You may feel, naturally, that you would rather have less interference, even at the cost of less protection, keep more money in your own pocket, and have less articles of

common utility to enjoy—that is a point we shall consider later, but it is only a matter of degree. In a word, the activities of the modern State are reciprocal; it is perpetually receiving and giving back; each of the hindrances it sets up is somebody's guarantee of freedom.

This is particularly true of the modern democratic State. After all, the State is not something outside us; you and I *are* the State. In the measure in which political power is put in our hands we control the instrument which in its turn controls us.

The story goes that an American, visiting a dockyard, wanted to get on board a man-of-war, and was stopped by a sentry who asked him who he was to dare proceed in this way. "One of the owners," he replied. In a sense he was right. The ship belonged to the American State, of which he was one of the responsible elements, although he had, as a matter of fact, delegated his share of control to the Admiralty of the United States.

Force and the State. We saw a moment ago that one of the characteristics of the State is that it has power at its disposal. Does this warrant us in saying that the State is *based* on force? Surely not. Autocratic despotisms, in which the mass of the governed had no means of controlling the Government, and no way of getting rid of it except by armed rebellion, were indeed based on force, since only force could remove them; but a modern State, the complete transformation of which, political, economic, social, is legally possible by constitutional methods, obviously rests on the consent of the people. The force at the disposal of the Government is only given to it for a common purpose, and is, as a matter of fact, so small that it could not prevail for long against the whole nation if it endeavoured to use it to thwart the national will. The physical force

enjoyed by the State is but the symbol of the truth that existence in a civilized community is impossible without a minimum of conformity to the manner of life desired by the greater number of that community, or, at least, of that part of the community that has a conscious view of life, of which it desires the predominance.

State and People. We touch here on a second problem. In what sense is the State the whole people? Are there not whole classes of the population, infants, criminals, soldiers, lunatics, bankrupts, and everybody under 21, that have no direct share in its control? Further, is not this control often purely theoretical? We may have political equality, but as a matter of fact does not power actually belong to a few, even in a so-called democracy?

Those questions are, of course, fundamental to the issues with which we are dealing, but it is too early to face them now. We shall only say two things. The one is that the duties and the rights of citizenship are not dependent upon a share of direct control; you must pay taxes, and you may claim the protection of the laws, whether you be a voter or not. The other is that although we may feel that law and reality are apt to be at variance, that the powers the law confers on all citizens equally are not as a matter of fact enjoyed equally by all, nevertheless, this legal equality of all active citizens is a moral advantage that must not be minimized; it may only be a stage, and not the goal, which our forefathers may have thought it to be; but it represents an essential milestone on the road to full equal citizenship for all. The "rights of man" may be at times ignored, perhaps even flouted; but their legal recognition is a fundamental condition to any civilized government.

How the State Works. At every point of our life,

therefore, we are gripped by the all-pervading, inescapable action of the State—"the keystone of the social arch; moulding the form and substance of the myriad human lives with whose destinies it is charged" (Laski). We have seen how varied its action is—in what different fields it is manifested; we turn now to the question: *How*, by what agencies, is this action exercised?

Generally speaking, we term "government" the complex system of institutions which carries out the activities of the State. We are all part of the State—but we are not part of the Government; in fact, in everyday life the State *is* the Government, and it is only on rare occasions that the governed exercise their share of control over the actions of the governing part of the body politic. Once elected, a Parliament is largely free from the restrictions of public opinion; and a great part of the Governmental machine works mainly free from any interference, and is, in fact, largely autocratic. However democratic our organization, we have to realize that, to quote once more Professor Laski, "the modern State, for practical purposes, consists of a relatively small number of persons who issue and execute orders which affect a large number, in whom they are themselves included." If you are but an ordinary citizen, however much you may pride yourself on your vote and other privileges, your chief duty is to obey—or to disobey at your risks and perils.

Political scientists usually classify political power under three heads—legislative, executive, judicial. The legislative authority (Parliament) decides what should be done, the executive (ministers and civil servants) does it, and the judiciary judges those who disobey the laws and generally pronounces as to the right discharge of its functions by the executive.

This classification is, however, too simple to be accurate. In fact, all organs of government, although mainly belonging to one of those three categories, tend to overflow into either or both of the others. Parliament does not merely make laws; it largely decides general lines of policy; it can dismiss the cabinet, which is a non-permanent part of the executive; it votes money and controls all expenditure; it acts as a final court of appeal, and is formally called "The High Court of Parliament." It has, in other words, both executive and judicial functions. The executive, on the other hand, is not merely the agent of Parliament's decisions; the increasing complexity of modern legislation is giving more scope and power to the Civil Service; modern Acts of Parliament are little more than a statement of general principles, and a great deal of sheer law-making falls into the hands of those who apply those Acts in every-day life. Finally, by their interpretations of laws, by their decisions on doubtful points, judges may be said to make laws quite as much as to judge law-breakers. Constitutional law, in fact, is far more made up of "case law," i.e. judicial decisions, than of actual statutes. But the attempt to separate those three categories has one great advantage: by preventing the accumulation of powers into few hands it increases the guarantees of individual liberty and the likelihood of each agent of authority confining himself to the function committed to him by law.

Functions of the State. Although, therefore, this rough division of State action under those three heads has its utility, it must be borne in mind that no one organ of government can be said to correspond exactly to each of those categories, and that there are few State activities which do not belong to all three. We can now enumerate the principal forms of State action (out

of which we shall presently select one for special treatment), taking first those that are more directly the sphere of the legislative, and, next, those that are more directly that of the executive. (We here follow Professor McIver's classification.)

1. The definition and protection of the rights of individual citizens. Without entering here into any discussion as to the philosophy of "natural rights," it should be observed that there are no political or civil rights in law, save as guaranteed by Act of Parliament.

2. The definition and punishment of crimes, using this term strictly in the technical sense. A "crime" is whatever is forbidden and punished by law; many wrong actions may be lawful, and many things not morally wrong may be unlawful.

3. The fixation and alteration of the Constitution, remembering always that a good deal of our Constitution is judge-made, and that much of it is tradition rather than law.

4. The conferment of powers on the executive, reminding one of Sir John Seeley's definition of Parliament as being essentially a government-making organ.

5. The passing of private Acts—i.e. laws which only concern a section of the community, such as an Act allowing the building of a railway, altering trust deeds, etc.

6. The provision of poor relief.

7. The general promotion of material prosperity (a wide field, to which we shall return).

8. The supervision of morals and education.

9. The levying of taxes.

Of those activities, several reappear as spheres of executive authority, as follows—

1. Diplomacy and the control of foreign relations.

2. The making of war and peace (the sanction of

Parliament is not necessary for the declaring of war or the signing of peace treaties).

3. The administration of poor relief.
4. The administration of education.
5. The supervision of the work of the Church.
6. The supervision of local authorities.
7. The granting of licences to certain occupations.
8. The protection and stimulation of trade.

Some of these items, as we said, are enormously comprehensive, and contain functions to which other writers would give separate headings. To give a few instances, it could be claimed that the enforcement of debts and contracts, the upkeep of ways of communication, the Post Office, the provision of gas, water, and electricity, the establishment of weights and measures, coinage, and sanitation, were problems in themselves, but a closer examination will show that they can very reasonably be said to come within the general province either of the defining of individual rights or the general development of trade and material prosperity. There is, in fact, no imaginable form of State activity that cannot be brought into this enumeration.

Parliament the Ultimate Legal Authority. Those numerous functions are exercised by a large number of officials and bodies, who all ultimately derive their authority from Parliament—a point which emphasizes the impossibility of making a hard and fast separation between the three powers. There is no official, whether he be a humble clerk, or a prime minister, or an ambassador, and no elected body, whose powers have not been granted—and could not be removed—by Parliament. Civil servants are, as a matter of fact, virtually permanent officials, but hold office “at the King’s pleasure,” and can theoretically be dismissed at any time, while their salaries depend on money voted by

Parliament ; while the servants of local bodies owe their position to the fact that Parliament granted to the authority that employs them the right to engage in the particular form of local action for which they are needed, and to levy public money for their salaries.

This position of Parliament is most important to note, as it is one of the essential features of the British Constitution. In most other countries, the powers of the Parliament (whatever name it bears) are limited by certain constitutional laws ; there are certain things that Parliament cannot legally do, and the Acts of Parliament which embodied them would be declared illegal and unconstitutional by the Courts of Law. But in Great Britain no Act of Parliament can be illegal or unconstitutional ; it is, on the contrary, the fact that it is contained in an Act of Parliament which makes a thing legal or constitutional. This is most important to bear in mind, as slipshod writers sometimes allude to measures they dislike as “unconstitutional” ; they may be contrary to the hitherto accepted traditions of the Constitution, but, however revolutionary, if embodied in an Act of Parliament, they are constitutional ; they become the law of the land. There is *nothing* that Parliament may not do if it chooses—this is the fundamental principle of the British political and legal system.

All this, of course, refers to strict legal and constitutional theory. Parliament is not *really* omnipotent ; it is limited at every turn by tradition, precedent, habit ; it must conform to public opinion and to the wishes of the electorate as expressed in by-elections. But in the strictly political and legal sphere, it is the ultimate authority ; and through it alone is all State action realized.

We shall, at a later stage, have to make practical

distinctions of great importance between the State acting directly through its *central* agents—Parliament, the Cabinet, the Civil Service, the Courts of Law—and the State acting indirectly through *local* authorities—county, borough, urban, and rural councils and the officials employed by them. The harmonious balancing of central and local authority is to a great extent the secret of avoiding the evil of over-centralization on the one hand, of incoherence and confusion on the other; and we shall see, when discussing concrete problems of State interference, that, even if it may be argued in the abstract that interference in a particular question is right or wrong, however it is exercised, the exercising thereof by central or local authorities may change the whole aspect of the problem. But as all bodies, central or local, hold their authority from Parliament, we can say that in this country all State action is ultimately the action of Parliament.

CHAPTER II

ECONOMICS AND POLITICS

WE are now able to concentrate our attention on one category of State action, namely, the action of the State in the economic life of the community. By economic we mean that which is related to the production or distribution of wealth—trade, industry, agriculture—and to the doings of the citizen in his economic capacity, i.e. as a producer or consumer of wealth. Before going any farther, it may be as well to note that we propose confining ourselves to the direct and deliberate economic action of the State. It is obvious that many of the ordinary activities of the State have an economic aspect, or may have economic consequences, or may be otherwise closely connected with economic policy. The punishment of “crime,” to take one instance, may seem to bear little relation to economic questions, but that would be a short-sighted view. Why is it that offences against persons—short of murder—are apt to be dealt with far more leniently than offences against property? Wife beating and cruelty to children will be punished by a few months’ hard labour, theft or arson by long periods of imprisonment. This is doubtless partly due to a lesser necessity for deterrence in the one case than in the other; few of us are really inclined to be cruel, but many of us might be tempted to steal if it involved no risks. But we must also recognize in that difference of treatment a survival of less civilized times, when life was cheap and property so sacred that the theft of any article worth five shillings or more was punishable by hanging, and when coiners were liable

to be boiled alive. Again, an apparently non-economic problem, such as prison reform, is in reality complicated by economic considerations; one of the great difficulties, as most people know, is that of suitable occupations for the prisoners—to perform useless tasks is deadening and degrading; but to produce economically useful articles involves competition with normal manufacturers.

The most apparently beneficial of reforms may have, in fact, serious economic consequences. Disarmament, for example, raises serious economic problems: you cannot close an arsenal without throwing thousands out of work, with no kind of certainty that the money saved on munitions will soon create a demand for work of a more constructive character; and we all remember how the Labour cabinet of 1924 were torn between their reluctance to build more ships and their desire to provide work for the Government dockyards. In fact, if we consider with care the consequences and implications of the varied activities of the modern State, we shall see at once that very few, if any, of them may be said to be free from all connection with economic questions—just as few individual actions have no reaction on our economic circumstances. However, we can only proceed on the assumption that a valid distinction can and must be drawn between the economic and the other functions of the State, between the economic life of the individual and the other forms taken by his various activities.

Are All Activities Really Economic? We shall be, at this point, abruptly interrupted by the enthusiastic Marxist: “Stop,” he says, “you are here making an impossible distinction. All your attempts at separating economics from politics, religion, or any other department of life are perfectly futile. All human activity is

at bottom economic, the struggle for physical existence conditions all else; economics, and economics only, explains historical development or present-day political action. Why then erect your elaborate division of categories? All the functions of government are economic, directly or indirectly; at present, government exists only to secure power in the hands of the actual property-owning classes. Further, economic determinism holds you in its grasp; it is vain to try and 'control' the economic life of a nation; it is that economic life which controls you."

If the Marxist be right, our whole method of approach is mistaken; this may as well be admitted at the start. It is evident that this is not the place for a discussion of Marxist economics or history; but the Marxist interruption will have had one useful result—it will have served as a warning not to under-estimate the importance of economic factors even in phenomena which may at first appear to have little connection with economic life.

We come back, therefore, to our starting point, that we are going to limit ourselves to the deliberate action of the State in what is normally taken to be the economic sphere of life, as opposed to the political, moral, and religious, and remembering always that this economic function will have to be perpetually related to the deeper problem of the nature and proper end of the State, and to the fundamental principles involved therein. In other words, behind what appear to be economic questions constantly lie political, moral, and religious issues. We shall perpetually be faced with the question: "Granted that this line of action is the most economically profitable, must another policy be adopted because of political or moral necessity?" Free imports may mean a lower cost of living and more

general prosperity—but this may be purchased at too high a cost of dependence on foreign supplies; the currency deflation of the last few years was certainly dictated as much by considerations of politics and prestige as by purely economic advantage. No economic policy is determined by economic considerations alone.

Having thus defined our task, we may now proceed to divide it as logically as possible. We can see at the very outset one main line of division.

The economic function of the State, as indeed all its functions, can be looked at from two aspects—what concerns the State itself within its borders, and what concerns it in its relation to other States. We shall, therefore, first study internal economic functions, and then the question of international economic relations, remembering always that here, as elsewhere, to draw hard and fast distinctions is impossible.

From the standpoint which occupies us, the State can be regarded as a kind of framework within which take place the various economic activities of the community. The form of this framework will vary according to the essential nature of the State, and this is, perhaps, the place to remind ourselves that, as often as not, economic circumstances rather than political are the real essential factors of that nature. Before going any farther, it is important to realize the part that economic factors may play in determining the real form and structure—and often whole policy—of the State.

The Economic Foundations of Society. It is important that a student of politics or economics should learn to look beneath the surface and to realize the real foundations on which societies rest. We are apt to classify States as “Republics” or “Monarchies,” but these terms have lost any real meaning. An infinitely more important difference is that between centralized

and decentralized States—i.e. States in which the organs of local government are fairly free, as in England, and those where they are rigidly controlled by the central government, as in France. It is equally important to differentiate between highly industrialized countries, such as England, in which the agricultural interest plays virtually no part, and a country like Bulgaria, in which 80 per cent of the people are peasants, or like France, in which the agricultural and industrial interests are about equal and are waging a desperate battle for the controlling of the economic policy of the country. As we shall see at a later stage, foreign policy is nowadays largely controlled by economic considerations, and economic circumstances will, therefore, play a great part in determining a people's outlook. A self-contained country can ignore international trade, and can, therefore, risk a war far better than a country dependent for its prosperity on a peaceful world. On the other hand, the peasant is less excitable, less easily moved than the town-dweller, and, while prepared to defend his bit of land, has no sympathy with schemes of expansion. There is the further question, that different importance will be laid in various countries on economic issues. Some people will think certain political gains. e.g. more territory, security against invasion, etc., worth heavy economic loss, while others are by their position unable to take any such risk. France and England are obvious instances in point, the one being prepared to endure heavy economic disadvantages to get security through "natural boundaries," while the other cannot dare to jeopardize her trade.

We must, therefore, make a brief survey of the way in which the economic background of the State has directly reacted on its political organization, leaving

aside, as much too large to be treated here, the general influence of economic circumstances over general policy. Now, if we begin this inquiry, we shall find a curious contrast between State action in the economic sphere and the importance of economic factors. While conscious State interference in economic matters was very slight in primitive societies and tended to get stronger as political and economic development became more complex, on the other hand, the part played by economic circumstances in the shaping of the form of the State gets steadily less and less; the political and economic aspects of State organization become increasingly separate; and it would seem that the increase in State action is partly due to this dissociation, the State having to regain by law and direct intervention some of the control over the economic life of the society which it formerly exercised more indirectly, when the very structure of society seemed to reflect economic conditions in a way that indissolubly linked up politics and economics, and formed a guarantee against any economic development or policy liable to run counter to the general welfare.

“From Status to Contract.” Early societies, then, tend to be directly based on economic factors, their political structure being but the formal expression of these. The clearest way to see this at work is to see how the individual was looked upon in those societies more in his economic than in his political or human capacity—how his economic position determined all his rights and duties, and how this position was largely outside his control.

A great student of politics, Sir Henry Maine, wrote in his book on “Ancient Law” that the movement of society had been “from status to contract.” He meant by this that in primitive societies men and women were

born in a particular position which they retained to their death, never being able to move into another. Gradually, freedom was obtained to decide by free contract what their work and position would be.

The classical instance of this is, of course, the transformation of societies based on slavery to societies made up of free workers. But other instances abound. Among the Jews, a member of the tribe of Levi was bound to the priestly office; in fact, any hereditary class, whether of priests, or warriors, or legislators, is one in which status replaces contract. But in a modern society such classes are few.

Slavery and the Ancient City States. It is evident that there is a close connection between such classes and economic life. Most of those classes are, in fact, economic. There is nothing more "economic" than a slave, and all societies based on slavery are societies in which the closest connection exists between the form of the State and economic organization. We are fond of speaking of the great days of the Athenian democracy, but must never forget that the intimate part taken by each citizen in the political life of the city was only made possible by the fact that most of the real work of the State was done by thousands of slaves, who literally kept the place going. Athenian leisure was secured by the slaves.

We have just referred to Athens; it would be easy to show how the political structure of most ancient city states (Athens, Sparta, Rome) was determined by economic conditions. Their early history is one of constant revolutions, every one of them the result, in a very direct way, of some great economic change. As trade grew, increasing inequalities of wealth appeared, created new classes which claimed their share of power, and tended to thrust into the background the small

farmer class who had hitherto formed the bulk of the citizens. Then came the appearance of a proletariat—poor town dwellers or landless agricultural labourers, free men, jealous of the power of the moneyed classes—who made a fresh revolution by which to re-establish the political equality broken by economic change. Thus, political unrest and change from “democracy” to “oligarchy,” from “aristocracy” to “monarchy,” and back to “democracy” (remembering always what different things these terms meant then from what we now mean by them), is in those societies directly due to economic change, so that one can say that their political constitution is but the expression of their economic structure.

Feudalism. The same is true of the mediaeval “feudal” state. Feudalism has been used to mean many things, but its essential signification is a state of society in which the political place of the individual was determined by his relation to land. The king ruled because he was held to be the overlord of the whole territory, from whom all landlords held their land; the “landless man” had virtually no rights, and the serf was bound to the land, which he could not leave, although he could be removed from it. It is unnecessary to enter into the whys and wherefores of the development and decay of the system; it is enough to state that, confining ourselves to Europe, this intimate connection between political power and land tenure was the natural result of the invasions and conquests of land which marked the collapse of the Roman Imperial organization after the fifth century A.D. and itself disappeared before the growing complexity of mediaeval economic life in the twelfth and thirteenth centuries.

The fact was that there was no place in the feudal

system for merchants and other town-dwellers; and as soon as the invasions and consequent upheavals had given place to something like political stability, trade expanded once more and burst the rigid barriers of the feudal system. We referred earlier to the State as a sort of framework within which the economic activities of the community take place; the collapse of feudalism shows the necessity of the framework being elastic enough to adapt itself to the expansion of economic life.

The Mediaeval City. Feudalism did not altogether disappear; the organization of land tenure, and the social and political status of those who were in any way connected with land, remained for many long years determined by feudal traditions and principles. But with the growth of towns it was no longer the sole foundation of the social order; side by side with the rural feudal system we now find an urban industrial organization, which tends to grow steadily more powerful with the increasing complexity of the social organism. But what matters for us to note is that in mediaeval towns economic status was more important than political; they were "essentially industrial communities, of which the ruling members—those in whose hands municipal government was placed—were engaged in trade or manufacture and were influential through their industrial occupations and connections; but, further, their industrial structure, the manner in which their economic structure influenced their form of government and the manner in which their government was carried on were very similar. . . . The typical citizen was a person engaged in trade or manufacture, and when the city was fully developed, the civic body was framed on the principle that the right of citizenship and the right to carry on an independent trade or industry were inseparably connected. Then the mediaeval

civic body became a kind of federation of industrial groups, while, later on, the mercantile element, as distinct from the industrial, took the lead, and for a time practically monopolized the government of the city." (Sidgwick, *European Policy*.)

Modern Freedom of Contract. Then came a later stage, when the fresh development of trade, commerce, and industry again burst the bonds of mediaeval restrictions, when neither State nor gild was any longer able to keep individuals within that class of society in which they had been born, and when increasing complexity made it no longer possible to use the economic organization of society as the framework for the political order. We have reached the stage of the complete separation of the political from the economic; freedom of contract now reigns supreme, at least in law, for there are, of course, many forces still at work restricting individual liberty of economic action.

There remained, however, many connections between political and economic power. In many countries the governing classes were for many years entirely recruited from the aristocracy either of birth or of wealth; and representative institutions only gradually shook off the idea that the franchise must be restricted to those whose economic condition was secure—this being usually attained by the franchise depending on the payment of a certain amount of taxation (France) or of rent (England). It took a long time to divorce economic status from political power and to arrive at the present state of things by which all are equal in political rights and duties, entirely independently of their personal wealth, their occupation, their relation to land, etc.

Separation of Political from Economic Status. We are, of course, dealing exclusively with the legal aspect

of the matter. It cannot be denied that in point of fact economic power and political power are closely intertwined. Wealth is power, and no democratic device will ever prevent the holder of wealth from using his economic position to further his political views. In the same way, it is impossible to make any absolute distinction between an industrial and a political crisis: the association of workers in some widespread industry will inevitably have a power that must tell in the political life of the country. But this contrast between law and fact must not confuse the issue; societies of to-day have abandoned any idea of basing a man's share of political power on his economic status. In fact, the modern State does not recognize the existence of differences of economic status; economic relations are determined by contracts, and in law the political and economic organizations are distinct.

It must be admitted, however, that, according to some students of politics, we are on the eve of a restoration, at least in some degree, of the old connection between political and economic status. The present system, according to them, rests on a fiction. Not only, as we said a moment ago, are economic power and political power closely intertwined, and no absolute distinction can be drawn between a political and an economic crisis—but economics is fast becoming the real business of politics and government. As a result of this tendency, people are getting increasingly interested in any big issue as it arises, not so much from their status as so-called free and independent citizens as from the point of view of their position in the economic world (in which all are not by any means free and independent). From this it is only a step to suggest the formal recognition of the situation, not necessarily (as some demand) by scrapping political

institutions and replacing them by bodies representing purely economic interests, but by taking economic function as the sole adequate and true basis for the classification of citizens and the organization of the body politic. We shall have something more to say on this matter towards the end of this study. Suffice it to say now that while it is true that no one suggests a return "from contract to status," it must not be thought that the present political order is the sole possible method of social organization based on "contract."

CHAPTER III

REASONS FOR STATE INTERFERENCE

THE time has now come to raise the fundamental questions: "What is going to determine State action in the economic sphere? (or indeed in any sphere). *Why* should this State interfere here and not there? Is there any principle that determines the scope of those activities?" It is evident that State intervention for its own sake as it were is meaningless. The State must have a definite reason for interfering—either that non-intervention would jeopardize some general interest it is bound to defend, or would leave undone things essential to general welfare; while, on the other hand, the tendency of the State to undertake certain economic functions may be met with the argument that the desired end is best attained by leaving individual enterprise free at this particular point.

But in all those cases the course of action is determined by an appeal to some ultimate motive or standard covered by such terms as "general interest," "things essential," "bound to do something." What determines this interest? Why is anything necessary? We are thus immediately confronted with the problem of the ultimate purpose of society, and of the right function of the State as its agent; we have to investigate its fundamental nature and aim. If you see mainly in the State a policeman, you will wish to see it act as little as possible. If you think that the State exists primarily to extend itself by conquest, that domination is the test of its true health, you will give it a free hand in all that makes for power—economic or otherwise—(hence

the blank cheque given to the State in war-time). If you believe with Bentham that the State exists to promote the material happiness of the greatest number, and that each individual is the best judge of his or her happiness, then you will follow Bentham in his opposition to State interference. If, finally, you believe with Plato and Aristotle that the State is a moral organism, that its end is to make men good, and that this object can be achieved by legislation and authority, then again you must give it a free hand, just as would the believer in the divine origin of government—there is no department of human life which can be withdrawn from its influence.

Gradual Development of the Scope of State Action. Originally, the sole function of the State was to keep internal order, and repel attacks from outside. Taxation was limited to what was necessary for the upkeep of army and police. Gradually, the scope of governmental activity began to grow. The maintenance of order involved the building up of an elaborate system of justice, the control and upkeep of highways and other methods of communication. The protection of property from robbers led to various measures for the control of trade. The desire for internal unity tended in some cases to make the State try and enforce uniformity of religious belief. The danger to order from paupers and vagrants led to the beginning of poor relief. At a later stage the State took up the provision of education, the enforcement of hygiene, and so on, until it found itself a kind of universal provider.

This, of course, is not to say that this growth of State economic activity has been constant and unbroken. There are whole departments of economic life in which the State once interfered and which it has now abandoned. The mediaeval State endeavoured to fix a

“just price” and to regulate “usury”; and, in spite of occasional legislation against profiteers, and measures against excessive interest, the modern State leaves prices and interest to be adjusted by the free play of economic forces. (This, of course, in normal times; war-time control of prices belongs to a separate problem.) But, on the whole, the broadening of the economic activities of the State is one of the main features of our time. We have only to mention such things as pensions, factory legislation, labour exchanges, unemployment insurance, and education to remind the reader of departments of State activity which were unknown a century ago, and which few save the most obdurate opponents of State intervention would now suppress.

Emergence of Modern Sovereign State. It is only in modern times that the problem of State action in economic questions has really arisen, and this because of two very simple facts. First, that the State as a distinct entity, clearly separate from Society and Church, is a recent phenomenon; and, secondly, that there was formerly no philosophy of individual rights with which to oppose State action.

In primitive agricultural societies there can be little scope for State economic action; all the farmer asks for is protection against invasion and security of land tenure; and there is consequently little State interference with economic life, except for the occasional requisitioning of all corn in times of emergency to prevent “corners” in wheat and other forms of food profiteering. The Government’s economic policy was limited to the ensuring of essential food supplies, a problem that became more serious in those parts of the ancient world where the urban population tended to grow too fast. Nor did mediaeval society know to any extent what State interference in its economic life meant. Social

institutions and economic activities were, in fact, related to a definite conception of a social order expressed in religion. It was only when the religious and social unity of the Middle Ages broke up before the rise of the new sovereign secular State that the problem as we know it really took shape.

The fundamental weakness of the new modern State was that it had no very clear idea of its proper nature and end. There was no longer any fundamental mystical belief from which it received its authority and to which it had to conform its conduct; and yet it must somehow justify its existence, at least to those who thought of politics. Inevitably, unable to refer inquirers to a principle higher than itself, it had to take its own existence as its ultimate end: hence the rise of the theory of the divine right of kings, responsible to no one except to God, sole masters of the lives and resources of their subjects (a theory tried in vain by Charles I, but successfully used by the kings of France); or, as in England with Hobbes and his famous treatise, the *Leviathan* (1651), and in the early nineteenth century in Germany with Hegel, the setting up, in the name of social order, of the absolute authority of the Government of the day as the only bulwark against anarchy and chaos (it may be noticed that there is no answer in Hobbes to the obvious case of a revolution successfully establishing a new form of social order).

Rise of Individualist Protest Against Sovereign State.

It was evident, however, that no State could hope to command for long a general allegiance that came from so negative a principle as the desire to avoid anarchy. The protests of those who found the rule of the State tyrannical were sure to make themselves heard—and their voices became audible first with the English Puritans in the middle of the seventeenth century, then

with John Locke some thirty to forty years later, and with Rousseau from 1750 onwards. Each of them in his own way represented the protest of freedom against authority, the claim of the individual to assert his personal opinion and desires against the arbitrary decisions of an authority over which he had no control—and each of them was either the herald or the forerunner of the overthrow of such an authority. But here again there was no undisputed inner authority to which they could appeal, and we find them basing their claim, in different ways of course, on the “natural rights” of citizens, thus limiting the authority of the State by the formal consent of its individual members.

This conflict of ideas was brought to a head in the French Revolution, which, however much it may primarily have been the revolt of a class—the bourgeoisie—and not of the whole people, was, nevertheless, a concerted attack against the doctrine and practice of royal absolutism as an end in itself, and gave birth to that striking, if often illogical and disconcerting document, the Declaration of the Rights of Man. This proclaimed the right of each one to worship according to his conscience, to move about the country, to trade freely. It affirmed the equality of all before the law (i.e. it denied the privileges of any individual or class), and, generally speaking, attempted to place what it considered fundamental liberties outside the reach of king, aristocracy, or oppressive corporation.

The Revolution was not destined to be as great a landmark in the development of individual liberties as its early champions had prophesied. Danger from foreign attack, traditions of State despotism, desires for unity expressed in uniformity—all these forces proved stronger than the liberalism of the declaration, and while political and judicial privileges were never

officially restored, the net result was mainly but the transfer of virtually unlimited authority from a king, first to a series of revolutionary committees, and then to Napoleon; so that when the monarchy was restored in 1814, the battle for individual rights—in spite of declarations and charters—had still to be fought out, in France as elsewhere.

By the beginning of the nineteenth century the issue was thus fairly joined between the “individualists” and those who, for want of a better word, we may term the “authoritarians” or defenders of State rights. Each had got hold of an idea that was perfectly true up to a point, but which needed the corrective of the other to be perfectly related to reality. The individualist rightly pointed out that there was no meaning in authority for its own sake, or in the quasi-deification of a State that was pursuing alleged interests unrelated to the welfare and desires of the individuals without whom it would have no existence. Its activities could not be ends in themselves; they must be the expression of some people’s will, and those people must be not only the governing class, large or small, but all those who had conscious desires and interests which were affected by government action—that is, everybody. The individual, with his passions, hopes, desires, needs, must be the ultimate basis of the State; no society is healthy which ignores this and does not endeavour to translate through its agencies the passions, hopes, desires and needs of as many as possible of its members—what Bentham, Mill, and the great individualist utilitarians termed “the greatest happiness of the greatest number.”

False Assumptions of Individualism. To this statement of individual rights it was easy to reply that it was true enough as far as it went, but that it started from wrong assumptions and arrived at unwarrantable

conclusions. Individualism presupposed a "plump and solid" individual, who could entirely be separated from other individuals, capable both of knowing and pursuing to a successful issue his own interests apart from State or society, with unlimited "rights," which could not be touched without his consent, whatever use he made of these; it assumed that you could distinguish "pure self-regarding actions," in John Stuart Mill's phrase, in which the community was in no wise interested, from those in which all were concerned. It tended to see in the State a tyrant, instead of realizing that State action could be a liberation from the tyranny either of a privileged class or of traditions more tyrannical than any laws.* It forgot, and perhaps this was its chief defect, that powers wielded by the State were not necessarily filched from the individual, that services of all kinds might be rendered by the State which no individuals could ever obtain by their own unaided efforts. It neglected the facts of economic and spiritual solidarity. It constructed an unreal world—unreal in its conception of an individual unrelated to his fellow men and to the various groups (other than the State) through which human activities have play, unreal in its view of an external State against which the individual had to be on a perpetual defensive.

But more than wrong thinking was involved. It assumed, as we said, that the individual had "rights" which were his by virtue of his being alive, and which could in no wise be infringed without his specific consent. Now, such a doctrine could be—and was, indeed, at first—a doctrine of liberation, but it could, and did, become a doctrine of tyranny. In the name of

* Cf. Matthew Arnold's indication of the State as the guardian of true aristocratic traditions in an ultra-democratic age (*Essay on Equality*.)

individual rights many shackles were shaken off, many an old-standing abuse removed. Arbitrary imprisonment, religious persecution, censorship of Press and books, economic and political privileges, were swept away in country after country, and man emerged into the nineteenth century with far more real freedom of self-expression than ever before in his history.

The Problem of Property and the Advent of Socialism. There was, however, another side to the picture. Among the sacred rights claimed by the individual was another, apparently equally natural, but more capable of abuse—that of property, and it quickly became apparent that it would soon reduce all others to subordination. Those in whose hands property lay when the century opened were still a comparatively small class of landowners and manufacturers, and, virtually, any advocacy of the rights of other classes involved a limitation of their rights, particularly of the right to do as they pleased with what they termed “their own.” It was, therefore, inevitable that theories should arise challenging those assumptions on which the unlimited control by the individual of what he happened to possess was based. This was one common basis of all the various theories called “socialistic.” They all denied this absolute right of private property, while differing widely from each other as to the manner in which society would control the property removed from private hands.

Socialism was thus a reassertion of the right of the State to interfere—but it differed from the “State philosophy” of a Hobbes by claiming as the guide for such interference, although using other terms, the old individualistic principle of the greatest happiness of the greatest number.

The Older Parties and State Interference. The advent

of this new political philosophy, soon embodied in a new organized party, rapidly led to a reconsideration by the two older parties of their attitude towards State interference. It cannot be said that either of them had even formulated an abstract theory as to the efficacy or fatality of such action. The Conservative party had been traditionally the party of intervention and despotism, the Liberals of individualism and non-interference. This was logical. As long as the State was, to a large extent, the King, it was inevitable that resistance to royal absolutism should entail resistance to State interference as such. It was natural that seventeenth and eighteenth century Tories should resist the doctrine of individual rights and its culmination in the French Revolution, and equally natural that this doctrine should be welcomed by the Whigs and the manufacturers of the Industrial Revolution, the newly expanding manufactures only asking to be left alone (and resisting factory legislation) while decaying agriculture demanded the support of the Corn Laws.

In the later years of the nineteenth century, the situation began to alter. The non-propertyied classes began to realize that freedom may include freedom to be exploited as well as to expand, and protective legislation was demanded, while both Liberals and Conservatives retaliated by declaring that matters must be settled by the "free play of economic laws." At the same time, new industrial conditions created a demand for "Protection"—i.e. State regulation of imports and exports—while the growing complexity of social life was causing increased State intervention in many matters, mostly economic, which had so far been left by both parties to individual enterprise, each party asking for State intervention along some lines, while resisting it along others.

Socialism and the Older Parties. The advent of

Socialism had very different effects on the two parties. It threw the Conservative party sharply back on its traditional defence of established rights, causing it to scrutinize with much keener suspicion many possible measures involving State action on the grounds of their being "socialistic" and destructive of property rights. On the whole, it tended to solidify and strengthen the party. On the Liberals it had an opposite effect. It attracted those Liberals who were radical reformers rather than individualists, and drove into the Conservative camp others whose liberalism was more a traditional jealousy of State action than a positive creed. It is too early to say at present how soon and to what extent the party will regain the unity and power it once possessed.

Much depends, of course, on the development and evolution of Socialism itself. We have presented it in the lines above as a single force, and in this country it has appeared so far as one political party, with no less cohesion than its rivals. It would, however, be idle to deny that "Socialism" covers a great variety of standpoints and of policies; and that even if the distant goal be the same for all Socialists, the roads thereto and the methods of travel are vastly different. English political parties have displayed hitherto an amazing power of maintaining a united outward front while being rent asunder by divergencies of principles and violent personal quarrels; and English Socialism has so far followed the tradition. But we must not forget that even in this country the cleavage is acute between orthodox Labour and Communism, while on the Continent the unity of Socialist forces has been the exception, not the rule. The disruption of Socialism might throw back into a party of "Socialized Liberals" many of the old Radicals and of the young Socialist *bourgeois*

intelligentsia. But political prophesying is not our present concern.

We shall have to return to many points to which we have only just alluded in these pages, and only wish to draw some general conclusions from this rapid sketch of the attitude so far taken by parties and thinkers to the question of State interference in the economic—or any other—sphere. First, that no party or class has so far evolved a clear, coherent philosophy of State interference. The tendency has been to advocate or reject it, according to the personal advantage, at the time, of the spokesman, whether party leader or political philosopher. “Power is useful in my hands, or in those of my friends, dangerous in those of my enemies” is our natural thought, and most of us have echoed at times the sentiment expressed in *Diana of the Crossways*: “Oh, for a dictator! a dictator to do our own bidding!” Secondly, that this absence of clear thinking has been due to the disappearance of any clear theory as to the nature of the State, and in particular of any agreed common purpose by which State action could be determined. Thirdly, that the circumstances of the modern world have been too strong, both for the old individualism that believed the individual could be really isolated from society, and for the old “authoritarianism” that believed in “the State in itself,” and thought it could be isolated from its individual members, or, for that matter, from its fellow States outside. Extreme nationalism springs from the same root as extreme individualism: the forgetting that solidarity is the reality on which all society is built.

Need for a Coherent Theory of the State. The time-honoured distinction between “liberty” and “authority,” between “individualism” and “State interference” cannot therefore take us very far. If we wish to

build up a coherent theory as to the proper function of the State in the sphere of economics, we shall have to discover some starting point more in harmony with the real facts of social life than either an individual, armed with natural rights which he brought with him from a time when society did not exist, or a State existing for an ill-defined purpose entirely unrelated to the welfare of the mass of its individual members. We shall be forced to formulate some political theory that will take into consideration a mass of apparently contradictory facts—that the individual has no existence worth the name apart from some social whole, and yet has a personal life that must find some measure of self-expression if life is to be worth living; that the State must exist as the agent for the co-ordination of individual lives into some coherent unity which is essential to life, and yet must never allow itself, in the name of some sacred common purpose, to deprive its members of their no less sacred self-expression. The search for that synthesis and its application in the economic sphere will be our next task.

CHAPTER IV

PERSONALITY AND INDIVIDUAL RIGHTS

IN this search for a clear principle by which to judge what now exists, by which to seek to alter, destroy, or rebuild, we shall be met at the very outset by the objection that the present chaos does not come so much from an absence of theories as to the proper function of the State as from the existence of too many such theories. Is not our confusion, we shall be asked, due to the clash between conflicting views which cannot be adequately harmonized ; in a word, to a fundamental lack of agreement on the matter at issue ? And does not this lack of agreement make futile any attempt at framing yet another political philosophy that is no more likely to command agreement than any other hitherto put forward, and will only add another note to the present discord ? To this statement it could, we think, be replied that the present chaos is due not so much to the conflict of clear policies as to the difficulty of working out any one clear policy in a system which is the result of haphazard growth, marked especially by the fear or incapacity of any party to apply resolutely and systematically their own philosophy of State action. But with this reservation we believe that the criticism is a true one and that the essential defect of most political thinking has been to ignore the truth it contained—namely, the difficulty, not to say impossibility, of arriving at a general agreement. All systems tend to ignore the fact that society is largely, after all, a complex of conflicting wills and desires and that the function of the controlling organ, the State, is not so much to

express a general agreement, or "general will," to quote Rousseau's famous phrase, as to allow those conflicting wills and desires to express themselves with the minimum of mutual hindrance.

Distinctiveness of Each Individual. The most casual observer of any society cannot fail to observe what is so obvious as to be a truism, that it is made up of men who are at the same time extraordinarily alike and extraordinarily different. This contrast is as marked in the mental and moral as in the physical side of life. Similar as we all are in all bodily essentials, no two of us are identical in size and looks—not even twins are absolute duplicates. However universal certain passions and instincts may be, their manifestations vary enormously according to many circumstances which we term education, environment, heredity, religion—and particularly that elusive element called personality.

Now, if my personality contain these elements which I have in common with other men, its distinctive value comes from what is unique to it. What we cherish in ourselves is what makes us "us," not someone else. We do not set as much store by our elemental impulses—which we share with the whole animal race—as by what makes us men and not animals. We prize yet more that which distinguishes us from uncivilized mankind (remembering, however, how thin is liable to be our veneer of "civilization"). Ultimately we cling most to that complex of emotions, feelings, thoughts, desires, tastes, aspirations, which we call our own self.

Personality, then, is a fundamental social fact, and no system can endure which deliberately ignores it. No organization of society is sound which sacrifices, to the alleged interest of one section, that which makes life worth living to another. Slavery and serfdom are obvious instances, but they are extremes. What is more

important is to realize that a healthy society must give to all its members the fullest possible scope for the free expression of their distinctive personality.

This point is absolutely fundamental, and needs stressing at its fullest, for it is ignored in a great deal of current political thought. We were stating, a short while ago, the impossibility of isolating the individual from the society in which he lived, without which his life would be meaningless, but it is no less important to remember that there are no such things as collectivities in the abstract, that it is futile to think of nations, groups, classes apart from the individuals that compose them. Save as a geographical term, "England" is meaningless apart from the thirty odd million of men, women, and children who inhabit the southern half of the island known as Great Britain; and what each of them really clings to, that which gives a meaning to life as far as he is concerned, is the chance of becoming all that of which he feels himself to be capable. Material inventions, territorial expansion, the growth of learning, moral and spiritual development—all these, to have any value, must be expressed in terms of human personality. Our first demand is, therefore, that the organization of the body politic shall reject in all its forms the idea that there is a "common welfare" or "general interest" which can only be attained by the deliberate sacrifice of a section of the community to that welfare or interest. No man or class exists for the convenience of another man or class. No society can flourish in which some of its members are, as it were, the rungs of the ladder by which others ascend to prosperity or culture. The full recognition of the importance of the individual, and the organization of society in such a manner as will give each individual his fullest possible chance of development—physical,

aesthetic, moral, spiritual—this must be the basis of any healthy society and the starting point of all sound political thought.

Personality and Society. We remind the reader that we are not assuming any “individual rights” prior to society, that, on the contrary, we are prepared to admit that there may be no such thing as an “individual” apart from society. But granting all that can be said about man as a “social animal,” incapable of living alone, whose solitary existence would be, in Hobbes’s famous words, “nasty, solitary, brutish, and short,” the fact remains that society can have no higher function than the development of complete human personalities because there is nothing higher in the scale of values than a fully developed human personality, and that, in fact, there are no values apart from persons. Any other aim that a society might adopt would stand condemned as lower than the highest and would rest on an illusion—that there was a real good to be sought that existed apart from persons. There may be no individual rights as such—but, as a matter of fact, society must act as if these existed, as if their preservation must be its most important care. “The ultimate isolation of the individual personality is the basis from which any adequate theory of politics must start.” *

As soon, however, as the individual tries to realize himself by himself, he discovers that he needs others if he is to have any real individual existence, and that what he needs in others is not their “common humanity,” their unrestrained passions and uncontrolled impulses, but their fully developed and controlled personality. He needs, in fact, just their differences. It is because his neighbours are not just the same as he is that he cannot do without them. The great law of

* Laski, *Liberty in the Modern State*, p. 28.

human solidarity ultimately rests as much on that by which men differ as on that which they have in common.

This means, therefore, that only through others, with the help of others, can individuality be expressed. Now, the intensely complex action and reaction of that multiplicity of separate individualities, "moving differently to the attainment of different desires," in Professor Laski's phrase, will cause indescribable confusion and chaos unless there be some co-ordinating authority, able, if not to direct all these energies into appointed channels, at least to see that the roads do not get hopelessly congested and choked.

In this clash of wills and desires the individual who wishes to be "free" will need protecting against the hindrances set up by those who are stronger than he, and would prevent his self-realization. Hence, the necessity for government. Civilization has grown too complex for each man to be able to realize himself without let or hindrance, leaving uncontrolled his desires and impulses. In one sense it is human selfishness that makes government necessary. At the same time, unconnected individual efforts at individual happiness would soon break down. Concerted action is needed for the realization of those very ideals which are the fullest expression of our most developed personalities. Some co-ordinating power is needed.

The task of the State will, therefore, be the removing of these hindrances which our selfishness would place in the path of our fellow-men, and the setting up of those agencies that will allow our actions so to be co-ordinated as not to run to waste—both these aims being all the time tested by the ultimate end of all society, the recognition of personality as the ultimate value.

Conditions of Freedom. The State appears therefore in two aspects, each of which is the inevitable counterpart

of the other, both as the guarantor and as the restricter of individual freedom. It fixes limits to individual freedom, but secures that freedom within those limits. It must do both, because there can be no personality without freedom to develop and express itself, and because unlimited freedom is a contradiction in terms: if we are all free to do as we like, no one is free to do anything, because he has no assurance that his neighbour's freedom will not block his path.

"Freedom," in fact, is a much ill-used and over-used word. To be worth anything, it has to be rigidly defined, and in this connection we would advise our readers to turn to the searching criticism of the term given by Professor Seeley in his *Introduction to Political Science*. Seeley's conclusions are negative, and therefore only partly helpful, but the whole chapter is an invaluable training in logic and exactness, and a wholesome warning against the slovenly use of vague expressions. "What is freedom?" says Seeley in conclusion—"in political science it means absence of actual restraint." "But," says the reader, "in that case it may not always be a good thing!" "Well," answers Seeley sardonically, "whoever said that freedom was a good thing?"

We are less cynical than Seeley, and declare most emphatically that freedom, even in this narrow sense, is a good thing, because restraint cannot be in itself a good thing. It may be a necessary means to a very clearly specified end, but that end must always ultimately be the development of personality. In other words, absence of freedom can only be justified if it can be shown either that only by such a restriction can the real freedom of all be attained, or that some have so misused their freedom that it has become incompatible with the freedom of all.

Thus it is only in the name of freedom that freedom

can be restricted. It must always be shown that the real freedom of all to develop their personality will be helped rather than checked, before apparent freedom can be denied. In other terms, we have to consider the effect of restraint not only on society as a whole (and here it may be remarked that coercion often has a more demoralizing effect on the coercer than on the coerced) but on the individual as well. This leads us to the valuable criticism given by T. H. Green, who, in his *Principles of Political Obligation*, lays down the principle that "those acts only should be matter of legal injunction or prohibition of which the performance or omission, irrespectively of the motive from which it proceeds, is so necessary to the existence of the society in which the moral end can be realized that it is better for them to be done or omitted from that unworthy motive which consists in hopes or fears of legal consequences than not be done at all."

It will be noticed at once that this fits in much more closely with the standpoint we have been adopting, since it makes the individual as much as society an ultimate standard. In those matters which do not directly or mainly affect personal development in its essence—namely, the spirit and the will—the State can interfere to order or forbid; in those matters which are vitally bound up with this development, then the State only interferes at the peril of what constitutes the only true justification of its existence.

This point—to which we shall return—is of fundamental importance. The State can only claim our allegiance if it is faithful to itself, if it uses its authority for the purpose for which it exists. If it forgets this and seeks to use it for an end which is only the negation of its true function, namely, the development of moral personalities, then resistance becomes a duty. There

can be no obligation of obedience to power that is trying to coerce me into a crime. And if the State and I do not agree as to whether this particular action be a crime or not, I must take my own line rather than allow my individual conscience (i.e. my sense of right and wrong) to be coerced. In the long run I am a better citizen, I am helping the State more, by resisting it, even in an emergency, rather than by stifling my conscience into doing what I believe to be wrong. The greatest service I can render to society acting through the State is to keep myself morally pure, because the development of moral personalities is its only ultimate purpose. We are, therefore, brought to the next question—What are the conditions essential to the expression of personality, the circumstances without which there can be no true individual self-expression?

The answer to this question really involves a twofold search. We have first of all to try and define the primary "rights" of the individual, those guarantees we can claim as essential to this individuality; we next have to see in what manner, in what type of social organization, we can use these rights to the best advantage.

Ideal and Actual Rights. By a "right" we mean the recognition by society of the citizen's freedom to act as he thinks best in those matters in which free action is essential to the development of a moral personality. We may, if we wish, term these "ideal" or "necessary" rights. In most societies of to-day the citizen enjoys a number of legal rights, some of which would belong to that category of "ideal" rights, others of which (mainly in the use of property) may be unnecessary and even socially dangerous; few if any States, on the other hand, grant at present all the rights which we should call ideal. The power of political development is very largely the conquest of rights felt to be "ideal," or

necessary to a full life, against an individual or class that was reluctant to see its powers curtailed. We may describe political progress, in fact, as the ever-continuing process of making legal rights coincide with ideal rights, together with a perpetually expanding view of what constitutes ideal rights—in other terms, with a constantly widening and deepening conception of what constitutes a really full and complete life.

A few instances will make this clear. A century ago the English working-man possessed, indeed, some essential ideal rights. He was free to worship God as he pleased; the law secured his life and property (such as he had); he could organize his family life as he chose; he had the (legal) right to follow whatever occupation he desired. He was fairly free to express his opinions in speech or writing. But he had in most cities no political rights, either local or national; he might not combine with his fellow-workers for higher wages or shorter hours; no law limited his day's work so as to secure him a measure of leisure; neither education nor hygiene was held to be a commodity which anyone could claim as a due. In other words, many rights which we now consider essential to a free life were then denied or ignored, and were only ultimately obtained by him as a result of bitter struggle.

Among the rights then unrecognized, and now only partly admitted, was that to social and political equality. By this we mean the recognition not of any hypothetical "natural equality" of man, but of a fact which is of the greatest importance in the economic sphere, that a "right" not enjoyed by all is a privilege, and therefore a denial of a true right. Privilege is, in fact, the negation of the equal right of all to their full moral development; it implies that there are individuals or classes that have a richer personality requiring more instruments

for self-expression, a view that cuts at the root of any spiritual conception of the universe. The struggle against privilege in any form is, therefore, an essential part of any social progress, and in so far as it is the refusal to countenance privilege, democracy is essential to any society that claims to rest on a moral foundation. Thus it may be said that what really differentiates States from each other is not so much the outward form of their governments, monarchy, republic, etc., as the nature of the rights they recognize—or deny—since those rights are the expression of each State's conception of its own function. In most States they will be a mixture—many old rights, remnants of bygone traditions and struggles (as in Great Britain the subject's right to petition the Crown), some of recent acquisition; they will rarely, if ever, form a coherent whole, in harmony with a clearly thought-out conception of the nature and ends of that particular State. But although conscious purpose may be difficult to discern, the fact remains that the system and character of legal rights, the degree to which they are really guaranteed, form a far truer expression of the true spirit of a State than the largely illusory distinctions by which we are apt to classify constitutions.

This digression over, we return to our original question: How shall we define those rights which may be said to be "necessary" to individuality? And the answer is, all rights that we desire, provided that they are in harmony with the true purposes of human life. The assumption upon which this argument rests is that this ultimate purpose must be of the moral order. It cannot be the search for material wealth, and it cannot be achieved at the expense of anyone else. This may seem a truism, but is really a principle with far-reaching consequences.

CHAPTER V

LIMITS OF STATE ACTION

OUR main study being the implications in the economic order of this principle that the ultimate purpose of the universe is moral, we shall only remark here that any community which makes wealth or material power its aim stands self-condemned. By "self-condemned" we mean two things: first, that in a universe resting on a moral order the pursuit by individual or society of anything lower than moral development is unreal and ultimately bound to end in disorder, and, further, that the State which refuses to take moral values as its standard has no right to the allegiance of a moral personality. There can be no true basis of political obligation in a non-moral State, and the only form that citizenship or patriotism can there take is the perpetual urging of new standards, together with a steadfast resistance to the lower standards the State would seek to enforce. However serious the apparent emergency, no State can demand of its members that they should be untrue to their highest moral selves.

No State is, therefore, true to its function and purpose if its policy be one of wealth as an end in itself, or of expansion at the expense of its weaker neighbours. It cannot be, because it would demand from its members, through whom alone can such a policy be realized, the adoption of aims and standards lower than the highest, lower in particular than those which should dominate their individual lives. The State can only claim from other States what it needs for its essential function, and, that function being moral, those needs cannot enter into

competition with those of other States any more than individual needs can be satisfied at the expense of the needs of others. We shall see at a later stage the profound significance of this principle in the sphere of international economic relations.

If the search for material wealth be contrary to the true end of society, so is it contrary to the true end of the individual. No one can demand as a necessary right the unconditional power either of amassing or of controlling unlimited wealth. All has to be related to the ultimate pursuit of moral development, individual and collective. Again, under no circumstances, we said, can man use man for the purpose of his development. This is only another way of stating that this development can really only manifest itself in service to a common moral welfare. Every moral person has a part to play in this search, a function to fulfil, and his "rights" are those he needs to fulfil that function to the fullest extent of his abilities.

Moral Action as the Basis of Individual Rights. We have thus arrived at a clear conception of the basis of State and individual rights. Starting from the assumption that all ultimate values are moral, and that a fully-developed moral personality is the ultimate reality and, therefore, the true aim of social life and the only true end of social good, we have come to the conclusion that the rights of the individual are bound up with his existence as a moral personality, and must, therefore, be recognized by the State if the State is to command his allegiance. He must be free to express himself as he chooses, provided always that this expression is not obtained at the expense of his fellow-men, and that the rights he claims as essential to his expression have their use justified. In other words, rights are not "granted" by the State, but exist in themselves, whether they be

legally recognized or not. They are, however, conditional as being necessary to the proper fulfilment of an individual's function in society. Of the nature of that function again he is the best judge, provided always that exercise lies within the limits of that moral order without which society has no meaning.

It will not be out of place to state what conceptions of the State are excluded by this point of view. At first sight it might seem that we have gone back to the old individualism of Bentham or Mill, but a closer examination will show that this is not so. The old individualism rested on the assumption that individual happiness was something that could be separated from social good or moral development, that there were departments of human life which were the individual's sole concern. We reject this view. At no point can individual action be said to have no social significance. What we say is that the social moral good will best be obtained by the fullest development of the individual's moral personality on its own lines, provided he respects in this the similar efforts of his fellow-men. Our quarrel with the individualist philosophy is that in its reluctance to interfere with the freedom of individual action it left unchecked all those forces of individual self-seeking which enabled the naturally strong and self-assertive to cripple the efforts of the rest, ultimately destroying the freedom of the many in its fear of restricting the freedom of the few.

The State Cannot be an End in Itself. Our chief criticisms, however, will be directed towards the various "idealist" systems built on the assumption of a common will or purpose that would either ignore or override the moral personality of the individual citizen, thus challenging Rousseau, Hegel, and a great deal of current political thought. which calls upon the individual

to sacrifice himself for a collective interest which is strictly non-moral in nature and has to be advanced by any methods, moral or not. It is one thing to call upon citizens to sacrifice themselves for the honour of their country if that honour be truly involved, i.e. in fulfilment of some unmistakable moral obligation; it is quite another to sacrifice the citizens of to-day for the sake of a problematical material advantage. We do not deny that there be a common welfare which individuals cannot override, but that common welfare cannot be different from the welfare of the individual citizens. There can be no corporate happiness based on individual misery, no social gain obtained by individual loss, and individual happiness involves freedom to pursue it within the limits already defined. We thus agree with Professor Laski's emphatic verdict that "a true theory of liberty" (and therefore of State action) "is built upon a denial of each of the assumptions of idealism."*

This standpoint involves a refusal to identify power with greatness. We maintain that the citizens of any country can be happy and prosperous in the fullest right sense of that term without their country being "powerful," i.e. controlling large resources outside its own borders and being able to make its policy prevail all the world over. Further, we challenge the view that the State be an end in itself and can command obedience to any of its dictates just because it has spoken. This extolling of the State, which is common in most countries to-day, is, we believe, morally wrong and politically disastrous. The voice of the State, expressed by the decision of the government of the day, is merely the opinion of that number of citizens who control the government. It may be the majority, it often is not, but in neither case is it sacred. It is right in so far as it

* *Liberty in the Modern State* (p. 26).

conforms to the moral end that is the only true end of the State. In minor matters, if I obey, it is not because I am forced to do so, but because where no moral issue is involved, it is better to fall in with that decision rather than resist. Perpetual objection, which is not really conscientious, makes common life impossible. In a crisis, I obey if the State's orders command my moral allegiance. If they do not, obedience is treason to the highest law, which governs State as well as individual action, and in that case I am bound to disobey. In a word we would say, with T. H. Green, that disobedience is never a right; it is either a crime or a duty.

Later pages will show that this standpoint need in no wise involve such a limitation of State action in the economic sphere as would leave society helpless before the forces of greed and exploitation. We are concerned only with two things. The first, to get a clear and coherent set of principles by which to direct State action into its proper channels and to give it its true motives; the other to put readers on their guard against views of the State that must lead to moral anarchy. Few, if any, would deliberately separate ethics from politics, but there is a great deal of unconscious Machiavellism in the political practice of to-day, and it is essential that we should not allow it to dominate our thoughts. No national crisis can warrant a "moral moratorium," and truth is not relative to political and economic necessity. We all, as a matter of fact, "draw the line somewhere." Few, if any, of us would really endorse the dictum of a popular paper that "the war must be won at all costs." We all feel that there are certain things that should not—and would not—be done, not even for the sake of victory. This deep moral instinct has its roots in the ultimate reality of things;

it has far-reaching implications in the sphere of economics and politics.

The Need for Toleration. This indication of the rights of the individual and of his moral personality as the only true basis of society will involve, we are aware, a good deal of fresh thinking and challenge many prejudices. It demands in particular the utmost measure of toleration in the expression of opinions; it means that we must be prepared to admit a great deal of "non-conformity" in all spheres of life. Further, it is essential to realize that the true test will lie precisely in our capacity to tolerate "unpopular" opinions; it is evident that the whole battle will range in the field of those things by which we differ from each other, and more particularly in which a small minority maintain their difference from the majority. Religion is the obvious example; it has always proved difficult for a dominant church to allow freedom to other religious bodies. The lesson of religious toleration has by now been painfully learnt in most countries (not in all); the lesson of toleration in the sphere of political and social thought has not; any new idea, particularly if it be very critical of existing systems and radical in its suggestions of change, has to contend, against the natural—but foolish—desire to stamp out the new heresy, on the grounds of its incompatibility with existing ideas and systems. This tendency, it may be added, does not appear at the very first stage, when the new idea is thought too "wild" and "impracticable" to be otherwise than harmless; it is when it has begun to spread and becomes really active and "dangerous" that the testing time comes. Further, it should be noted that repression often gives to ideas an importance they do not deserve—they might soon disappear if left alone—and that subversive philosophies are always a

symptom of some disease in the existing system, whether political or religious. There may be a point at which it should be made clear that the new idea can only be expressed at one's peril, but a wise society will place that point very far indeed. Repression of speech is nearly always—we hesitate about the “nearly”—more dangerous to the represser than to the repressed.

Personality Expressed in Group Action. Having thus arrived at what we hope to be a clear statement of individual rights, we can now ask the further question—how will these rights best be exercised?

It is nearly always assumed in current political theory that there are only two parties to be considered—the State and the individual. Such a view is to our mind very short-sighted. It assumes for one thing the identity of State and society—an error bound up with the conception of a “general will”; it ignores, and this is still more important, the numerous groups or bodies to which the individual belongs and to which he owes an allegiance as full (and as limited) as that which he owes to the State. We saw in our first chapter how those groups—church, trade union, family—differed from the State in scope and power; but, differ as they may, they are as real as the State, and allegiance to them is as vital as allegiance to the State—more vital even in some cases, either because they appeal, as does a church or a family, to a side of man that is deeper than his political instincts, or because they affect his everyday life in a more consciously direct way.

They are in fact more essential than the larger and more distant State to the full life of the individual. None of us can really be alone for very long; apart from our material wants, which require the assistance of others, we need the company of others in order to be really ourselves; we need mental and spiritual help; we

need an audience ; we need other minds to react on ours, and on which ours can react. The familiar old saying about man as a political animal really cuts very deep. It is only through man that man can really express himself.

Association in groups is the only method by which this can be realized. These groups must be of all kinds in order that widely different individualities can find through them adequate expression. Few can do without the tiny family circle, and every widening of our activities and interests will demand its expression through a more or less organized group. Even religion, the most individual of all manifestations of human life, demands for most people some form of corporate expression.

Few errors can be so great as to ignore the reality of group life, or, worse still, to try and crush it. This can be done : all French governments since the Revolution have endeavoured to stifle group life by restricting "freedom of association," by keeping under strict supervision and control guild, church, trade union, benevolent society. It was thus hoped to throw the citizen back on the State as the sole body to which he owed allegiance, so as to secure the "unity and indivisibility" of France. But the result was the throwing back of the citizen on to himself and to the natural group of the family ; far from stimulating devotion to the great common good, it diminished public spirit and stimulated a narrow individualism which has been the bane of French political life.

It is, on the contrary, by serving the small group that the individual will learn to serve the greater in the right way. The virtues which normal healthy family life develops are those the State needs : the realization of a whole greater than the self, and loved by the self, which

can only exist by mutual service, and yet which has no life of its own apart from its members and will never prosper by the sacrifice of any of them to an alleged common necessity. A wise State will see in a full, unfettered group life the training ground for citizenship, and will further see in group action one of the channels by which to accomplish much which cannot be left to individual enterprise. Loyalty to a group is, therefore, as essential a part of the citizen's life as loyalty to the State. That those loyalties may apparently conflict is an unfortunate fact in the present organization of the world; the one thing to do in such a case is to see whether State or group is on the point at issue truer to the real end of society and man. There is, of course, the fact that the State has the power of punishing disobedience by penalties that are denied to the others; but its authority is in no sense more binding morally; in fact, it is often only in so far as the destinies of those other groups may ultimately be bound up with that of the State that the latter is able to obtain the sacrificing of other allegiances to its own.

Groups and State Sovereignty. At present, however, we are not concerned with any hierarchy of loyalties, but with the fact that they exist, that it is often through them that the individual most fully expresses and realizes himself, and that they may very well transcend the limits of State allegiance, either spiritually if they be of a higher moral order, or physically if they link up individuals belonging to various States. While the State, to quote Professor McIver, is "exclusive, determinate and rigid, the community is a matter of degree; it is a network of social inter-relations, here dense, here thinner, joining men over countries and continents." Any discussion of the authority and functions of the State in the sphere of economics will therefore have to

take this network into account; it will have to realize that between "State action" and "individual enterprise" lie a whole number of "group actions" which cannot be ignored, either in their present function or in the functions they might fulfil in a reorganized society.

Our emphasis on the rights both of individuals and of groups thus leads us to a rejection of the various systems which are built on the idea of the sovereignty of the State either within or without its borders. We do not believe that there can or should be a single central authority with an unlimited power of saying an absolutely final "last word." Parliament, as we saw in a previous chapter, may be legally sovereign, but is really subject to the pressure of public opinion and limited by a host of political and social traditions it dare not flout; in a time of crisis no "last word" would be really obeyed that had not the support of the greater part of those who share in the conscious political life of the community. And this is as it should be. A really sovereign State, above all law, tradition, custom and morality, would be a monster, and we might add that the modern State in time of war perilously approaches such monstrosity.

If the idea of an internally sovereign State be but a dangerous illusion, that of an externally sovereign State is an illusion far more dangerous still, which may lead to the downfall of civilization. The State that identifies its own fancied interests with the welfare of mankind, that acts as if the world were created for its convenience, enrichment and expansion, that is in all things a law unto itself, is a peril to its neighbours, and must ultimately destroy itself by its ignoring of the realities of international dependence. Unfortunately, there is no powerful State that has not suffered at some time in its existence from this form of self-deception,

and our modern political organization still rests on the fiction of equal sovereign States, although (fortunately) most States do implicitly recognize some limitation in fact of their theoretically unlimited power. The dangers for the world's economic security of the State's claim to absolute sovereignty will be fully discussed in a later chapter.

CHAPTER VI

THE STATE AND PROPERTY

THE prevailing tendency, in this and other countries, has been to keep apart the political and economic aspects of national life. It has generally been assumed—particularly since the days of the industrial revolution—that “State interference with industry was never an advantage” (Sir Robert Horne, letter to *The Times*, 8th September, 1924). Such interference as did take place had to be defended as exceptional and unavoidable; it usually had to seek some non-economic justification (health, morals), and to deprecate any attempt at directly interfering with either the production or distribution of wealth. Or, again, economic action was taken on strictly political grounds; the economic organization of the former German Empire, for instance, was dictated by the universally-accepted consideration that all must be subordinated to military power and efficiency, such as the planning-out of the railways, their control by the State, the high tariffs that would make Germany self-sufficient as regards the essential necessities of life.

If we turn to our own country, we shall perceive throughout the centuries a constant alternation between two conceptions of government, both of which, however, are tending to disappear. There have been times when power was, here also, the end to which everything had to be subordinated, periods of national wars, or of consolidation after internal strife. At other times, to quote Lord Bacon, “considerations of plenty” overbore the “considerations of power”—wealth and welfare

were taken as interchangeable terms, national policy became a matter of obtaining markets abroad and of commercial supremacy. Generally speaking, those periods (particularly the eighteenth and nineteenth centuries) were periods of individual freedom, State interference not being considered advantageous to economic development. It should also be noted that the English people, being free from all danger of invasion, could afford the luxury of a government strictly limited in its interference with individual liberty, and have been at all times reluctant to free the authorities from the most scrupulous observance of legal technicalities in the discharge of their duties; to them, it was in the sovereignty of the law that lay the safety of the people.

The pressure of hard facts has caused the complete breakdown, both in practice and in thought, of this separation of the economic from the political. The spread of industrialism, the enormous increase of wealth, the increasing power of economic and financial interests, have all contributed to the development of new theories, challenging old assumptions and culminating in the Marxist claim that the economic should dominate and control the political. Further, all theories apart, Governments have been forced to enter the field of economic activity on a large scale and in the most direct manner. No one would suggest a return to strict non-interference in matters economic, with the removal of all "restraints" on trade, conditions of labour, insurances, etc. "The policy of *laissez-faire* would be to-day a sombre gospel of despair, unlikely to commend itself to the thoughtful, for it postulates a lower standard of life for all. Nor is there now any economic justification for it, since, in fact, government or no government, the laws of supply and demand are no longer automatic and

economic forces are no longer permitted free play." Further, "with industry the main problem in our national life, and likely to remain so for a generation at least, how possibly can any Government stand entirely aside from its consideration?" (Lord Melchett's *Industry and Politics*.) Any comment would be superfluous; governmental action in the economic sphere is an unavoidable fact, and discussion can only range about the manner and degree of this interference. From whatever angle we approach the problem, it is evident that State interference with private enterprise in the production and distribution of wealth will become, in some way or another, interference with private property, its acquisition and its use.

The Right of Private Property. Few individual rights have in modern times been as unquestioningly assumed as the "right of private property" in all its numerous forms. (We say "in modern times" because the idea of unrestricted private property is of comparatively recent growth.) The right of the individual to make money as he pleased, to use it as he pleased, to dispose of it after his death as he pleased, is one of the foundations of the modern industrial order; and any restriction of that right by the State has only been carried through with the utmost difficulty, and that only when it could be conclusively proved that such restriction was so overwhelmingly in the material interests of the community that insistence on the individual right was in this case an infringement of the property rights of others. (The expropriation of landlords for the building of railways is an instance of what we have in mind.) Even then, every such restriction has been denounced by those affected as "robbery," and still now the cry of "property in danger" is used with much effectiveness against schemes of economic reorganization, such as the

abolition of royalties, high income tax, increase of death duties, and a capital levy.

There is, of course, no modern society which recognizes an unlimited right of private property. Individual wealth is taken directly by taxation of all kinds, indirectly by all measures which control the acquisition and use of wealth: usury laws, Factory Acts, adulteration laws, tariffs, etc. But modern societies, however much they may in fact interfere with private property, assume that such interference is only to be defended in cases of exceptional necessity and that, unless such necessity be proved, the individual's freedom remains unimpaired to hold uncontrolled whatever he has acquired without the direct infringement of existing laws. The idea of property needing any kind of moral or even economic justification is alien to current conceptions. "I can do what I like with my own," and "my own" is everything which I have been able to acquire lawfully, however morally or socially indefensible my methods of acquisition may have been.

The result of such an attitude is what could have been foretold. The appalling inequalities of wealth resulting from this freedom have caused the outburst of theories denying in varying degrees the validity of private property. The declaration, "I can do what I like with my own" is met with Proudhon's assertion that "property is theft." While, on the one hand, Lord Hugh Cecil states (*Conservatism*, page 120) "the simple consideration that it is wrong to inflict an injury upon any man suffices to constitute a right of private property where such property already exists," we are told, on the other hand, that all property owners are economic parasites, and themselves inflict upon their fellow-men injuries out of proportion to the injury they might experience by being deprived of their wealth. The

widespread influence of communistic doctrines of all kinds forces us to formulate, if only in self-defence, some economic and moral coherent theory of property; it is not enough to discover what principles may justify the State in interfering with private property; it is essential to have some principles by which, in the first instance, to justify property itself.

Various Forms of Property. Our first task is to analyse the great variety of forms that property may take in origin and use; for it must not be assumed that all forms, even if equally defensible, would be necessarily defended by the same arguments. I "own" the pen with which I am writing, the clothes I wear, the books I have in my library, because I bought them with money I earned for work done; the house of which I am the legal owner was bought with money inherited from my father, and I am also the proprietor of a few shares in industrial concerns. Are all these forms of ownership of equal sanctity and significance? Have I the right to ask the State to guarantee them all in the same way? The law recognizes as property clerical advowsons and royalties; money painfully earned by the sweat of brow or brain is not protected more fully than money gained by a fortunate speculation which was only just not fraudulent, or by sweepstakes which are supposed to be illegal. Further, these guarantees are equally operative whatever be the amount owned or the use made of the wealth—is it necessarily right that it should be so?

Some will at once answer: Why not? Is not this guarantee in acquisition and use absolutely essential as an incentive to the work that will create wealth, and is not this creative work essential to the life of society? Is not any interference with private property destructive of social order? And, to put it in another way, is

not private property justified as essential to the true prosperity of the community?

Results of Present Property System. The only answer is to survey the actual results of the present system, as seen in the production, distribution, and use of wealth.

In production, it is evident that the present system of "property rights," and therefore absolute freedom to use such productive apparatus as one possesses, has on the one hand given us an abundance of cheap manufactured articles and cheap imported food, making general standards of life vastly higher than those of half a century ago. Furniture, clothes, and food cost little, in spite of varying standards of cheapness, of real wages, of cost of living in other countries, etc. Life should, therefore, be easy for the great mass of the people, since wealth is being produced on such an abundant scale.

And yet it cannot be denied that much of this abundant production is absolutely wasteful, or at least carried on without any relation to the real needs of the community. The law of supply and demand is left free to operate, and the tragedy is that the *effective* economic demand does not correspond to real social need. This discrepancy is due to the breakdown of any satisfactory system of distribution. Life should be easy for the great mass of the people, we said—but it isn't. We need only refer to two phenomena which are too obvious to need stressing—the appalling inequalities of wealth and unemployment. Are these inherent in the present system of free enterprise? We do not know; all we can affirm is that those two evils must be remedied if civilization is to endure. The fact is that the economic life of the country is largely controlled by people who are responsible to no one for the use they

make of their wealth, and whose ultimate criterion may be, and often is, only the creation of more wealth and the maintenance of a social order in which this remains possible. We cannot say, therefore, that the present system of unlimited individual property rights has resulted in a system of production, distribution, and use of wealth meeting the real needs of society, creating order and happiness and social harmony. Or, to state the problem in the terms used in preceding sections, it does not appear that unlimited rights in private property have been able to secure to the great mass of the people such a share in the social wealth as gives them a chance of self-expression. Our economic system ultimately rests on privilege.

Starting now with the individual, and his claim for a free expression of his moral self, we may ask what relation can private property be said to bear to that end?

Private property may be said to meet two essential and legitimate needs—self-expression and security. The property-less man is, to say the least, hampered in his desire to express himself. The point need not be laboured at length; there can be no fullness of life without the control at least of those things that make up the material background of our daily intimate life. A system of society which did not allow us at least to decide how we should spend our share of wealth, however small, would not be tolerated for long by men of varying desires and tastes. But most members of modern societies have so little wealth that what they have all goes to the meeting of immediate needs—food, clothes, shelter, so that only a small margin is left through which individuality can really be expressed. However democratic our property system may be in theory, it is certainly not so in practice.

Further, to most people, property means security, and is sought for as such. Men cling to wealth, for what it will bring now, but also, and perhaps chiefly, for what it will bring later, to them or to their descendants. They see in it a guarantee against ill-health, unemployment, poverty in old age, and this desire is legitimate and natural. But it is also evident that in our present system very few enjoy this security through their own property, and that this security can be equally obtained—as it is for many people—by State insurances and pensions.

While it is clear, therefore, that the control of a certain minimum of wealth is essential to the true purpose of the citizen, it is equally clear that the control of a large amount of wealth fails to pass this test, going as it does beyond all needs and giving a power which corresponds to no useful social function. It may be defensible for other reasons, but not on the ground of the true welfare of the individual.

State and Property Rights. It follows that the defence of property rights cannot be based on their being necessary to the life and self-expression of the individual; and that, if desirable for other reasons, interference with these rights cannot be ruled out on that score. A current defence is the assertion that wealth having been created by individual effort, the individual's enjoyment of it should not be interfered with. But this is surely making a series of assumptions that beg the whole point at issue. Are there no limits to such "enjoyment"? Has the community no right to demand that the enjoyment should be directed along socially useful channels? Further, how many people own wealth they have really created? It is evident that no inheritance of wealth can be defended by that argument, nor wealth obtained by unearned increment, such as a rise

in the value of land, or a sudden boom in certain stocks. Property acquired by the work of others does not fall into that category, and a great deal of existing wealth is not owned by those who created it. Lastly, and this is more fundamental still, is any wealth really "created" by individual effort? Take the floating of a successful business, even if it meets a real need; who is the "creator" of the wealth amassed by the business? The actual founder, who had the acumen and ability, is certainly entitled to much, but he is by no means the sole creator of the wealth. Alone, he would have been helpless; society helped him at each stage, not only by the direct loan of capital (which is retributed), not only by the labour of the employees (whose retribution may or may not be adequate), but by the existence of a complex machinery of credit and exchange, the innumerable agents society has organized for the carrying on of economic life. In other words, wealth is partly an individual and mainly a social creation, and society may well declare that the share of individual initiative should be limited to what is really the result of such initiative.* Private property is neither right nor wrong in itself: it has to be encouraged in so far as it is essential to the creation of true social values, which must be in the long run individual values; it has to be perpetually subjected to the double test of function and use.

The duty of the State will, therefore, be to secure for each citizen those material conditions which will give him the fullest opportunity possible of a full life: it will not start with any assumption as to the desirability or otherwise of State action in the sphere of economics,

* "The individual is entitled to a reward for his own productive effort. The community is entitled to receive the benefit of the co-operative aspect of that effort."--(*Industry and the State*, p. 138.) It is interesting to contrast this view of four young Conservative M.P.'s with that of Lord Hugh Cecil quoted on page 61.

but will test every possible avenue of intervention or non-intervention by that criterion. It will be prepared to grant the individual economic freedom—as long as this freedom is not interfering with the freedom of his neighbour, and no longer. It will not tolerate any industrial system in which men are sacrificed to profits, in which men are mere tools. It will deny, in spite of any appearances to the contrary, the possibility that the community should benefit by such a system. It will not be dominated, in its attitude towards any particular aspect of economic activity, by any *a priori* assumptions as to individual property rights.

CHAPTER VII

THE STATE, PRODUCER, AND CONSUMER

WE may now turn to the strictly concrete task of analysing the actual activities of the present-day State, leaving aside for the moment any criticism or defence of such activities. We find that these all come within three different categories.

1. *Regulative Functions.* Firstly, those activities which the State directs or regulates, without itself carrying them on. Under that heading would come such things as Factory Acts; the licensing of certain trades, of places of entertainment, of public houses, etc.; the regulation of hall-marks and patents: the extensive machinery by which the State enforces contracts of purchase and sale, and a mass of legislation concerning partnership, the formation of joint-stock companies, insurance, bills of exchange, shipping, bankruptcy, etc., much of which is simply the legalization of current practice. There is here a wide field of State interference with economic life, about which there is little if any controversy, and to which we shall not refer again, save indirectly by way of illustration.

2. *Essential Functions.* Secondly, those activities which are by their very nature the monopoly of the State, and which are essential to any settled economic life: the management of currency, for instance, the raising of taxation, the levying of customs. But although inevitably being a State monopoly, they raise problems which go to the roots of our subject owing to the different forms they may take. What principles, for instance, are to dominate our currency policy?

What are—if any—the legitimate limits of taxation? In other words, the fundamental issues of the true purpose of the State cannot be left out of consideration.

3. *Optional Functions.* Thirdly, those activities which, according to varying arguments and circumstances, may either be carried on by the State or left to private enterprise. These cover an enormous field, including as they do, not only everything which may be called industrial control, but many other spheres of work which are not directly economic and yet have an economic aspect which cannot be ignored: education, for instance, and what we call social legislation. It is, of course, here that the real battle is to be waged. The State may interfere to hamper the free operation of trade—by regulating prices, by rationing, or by preventing corners and trusts: it may interfere to direct trade into certain channels by giving encouragement to certain forms of production: it may finally remove certain activities from private hands and carry them on itself. This interference may be the work of the State proper, or it may be done, under some measure of State control, by other agencies representing the community, such as municipalities and other local authorities, or by some organ specially created or already existing, to which the directing of such activities is handed over by the State, under certain specific conditions.

The economic life of a Society consists of a twofold process—the production and the distribution of wealth; and the economic activities of the State could be studied under those two headings. But the danger of such a method is to make us lose sight of the human realities which are veiled by those terms. There is no “production” of wealth apart from the men and women (and children, even) who toil to produce it: the “distribution” of wealth

is the meeting of the essential necessities of those same producers.

We shall, therefore, endeavour to avoid abstractions and to bear in mind our assumptions—that the function of the State is so to control the social organization as to give each individual member thereof the fullest possible chance of developing a full moral personality. We shall be concerned, therefore with the duty of the State to the producer, rather than with the pros and cons of State “interference” in production; with the duty of the State to the “consumer,” i.e. to individuals of like vital needs, with a moral life to lead which cannot be lived without an assured basis of physical existence.

Producer and Consumer not Distinct Persons. One point should be made clear at this stage, although we may have to return to it later, as it is fundamental: the producer and the consumer are the same. Much current talk “assumes that there are three parties in our industrial and commercial system—employers and employees” (together forming the producers) “and the buying public” (the consumers). “Whilst this division is always roughly true of any particular industry, it becomes quite meaningless when the whole field of industry and commerce is considered. Broadly speaking, the idea of a separate race, called ‘the public,’ which does all the buying and never produces anything, is a complete myth, and one that it is extraordinarily difficult to explode.” *

In other words, it is impossible for the State to favour all producers against all consumers, or *vice versa*. High wages to the producer mean big purchasing power to the same individual as consumer; low prices enable the

* Sparkes, *Modern Industry*, p. 27. (A stimulating little book, based on the principle that the essential need of to-day is to increase the purchasing power of the buying public, which is, in fact, the whole body of employers and employees taken together.)

same consumer to accept lower wages as a producer. (The possible favouring of producers in one particular industry as against the producers in all other industries and the whole body of consumers is another problem altogether, to be dealt with in another chapter.)

But although producer and consumer are ultimately the same people, so that any policy towards the one is found to react on the other, it is true enough that for purposes of analysis the twofold division into production and distribution is essential to clearness. It must, however, be borne in mind that this division does not correspond exactly with the division of the State's functions into responsibility to producer and responsibility to consumer. It is primarily as producer that the individual is interested in a fair distribution of wealth; he wants the satisfaction of certain material needs, but he also demands that he shall obtain that share of the produce which justly represents his share of labour; and he looks to the State to see that his personality is respected in these two essential ways; first, that his essential necessities are supplied, i.e. that the industry be made to pay a living wage, and that wages should not be at the mercy of a stoppage for which he is in no wise responsible, whatever processes of reorganization be involved in this; secondly, that any surplus of profits, beyond such payments without which industry cannot live, be so distributed as not to offend the most elementary justice, so that labour, capital, management, and society as a whole shall see their claims met equally.

Thus, the State's duty to the producer may involve a considerable interference in the distribution of wealth, if it be shown that the present system be not adequate in the defence of those individual rights without which there can be no true personality.

Former Views of State Responsibility in Production.

Let us now go back, then, and ask what is involved in the duty of the State towards producers of wealth as individuals? For a long while this was held to be limited to the setting of a clear and fair field to the unchecked operations of the law of supply and demand, which was taken to stand for free competition. The employer "bought" labour as cheaply as he could; he sold his produce as dearly as he could; the State only interfered to ensure the execution of contracts. The inevitable development of State action so as to secure real competition came, as it was realized that for the worker to "compete" in any real sense he must be protected, at least in his body, and that the consumer must also be protected in the quality of the produce supplied. Hence, Factory Acts, Adulteration Acts, etc., all of which have already been noticed in another connection.

However broad and extended a view is taken nowadays of the State's duty towards the producer, it is usually strictly limited to this theory of physical protection. Provided it can be shown that he works under hygienic conditions for a reasonable number of hours, that his wages are regularly paid, and that machinery exists to see these are not frivolously lowered, the producer is left to look after himself. This protection, by the way, is only for the employee, on the ground that the employer is powerful enough to need no protection.

This raises the point—obvious enough, but essential—that when we speak of "producers" we mean several categories of people. We speak, as a rule, of "employer" and "employee"; in truth, the classification is more complicated: the owners of the capital involved, or investors, form one category: those "paid workers" who are responsible for the management are another (or rather are several more); and what we term

“employees” are those paid workers who have no responsibility directly or indirectly for management or policy, and have no interest in the undertaking beyond the natural desire that it should prosper enough not to have to cut down wages or staff.

The Rights of the Producer. Now there are many who believe that the present distribution of control in production is not in harmony with justice or with the rights of the great mass of producers. They urge that the putting of one’s labour into a piece of work entitles one not only to a share in the proceeds but to a share in determining the methods of production; that, to state it at its lowest, the labourer is as “interested” in the enterprise as a whole as the average investor, or, in other terms, that the investment of money in an enterprise should not confer more power than the investment of labour. And they urge that it is the duty of the State so to control the organization of production that all producers will obtain not only those physical conditions of labour, on which their producing capacity depends, but that share in management and policy which will give them the same dignity of status as producers as they obtain in politics as citizens. Just as the conception of a “governing class” in politics belongs to a bygone age, so its disappearance from industry is demanded by many who are in no sense socialists—“The problem of the economic status of labour can in the long run only be solved by an association of labour with the government of the business—not in ordinary executive and commercial management” (why not?) “but in the large sense, by a share in the decisions of general policy”—so say the “four Conservative M.P.’s” in their recent book.

The various methods by which this control of production can best be secured raise questions which will

be discussed at a later stage. The point that needs to be stressed here is not the "how?" but the "why?"; and the answer to "why?" is, it seems to us, twofold. In the first instance, we would insist once more on the wastefulness of much production—on the manner in which luxuries are created when necessities are not met, not indeed through the ill-will of those concerned but owing to the play of those various forces which prevent effective economic demand from always corresponding with real economic need—the difficulty of moving labour, the need for immediate profit, the lack of organization and combination which must accompany unlimited freedom of enterprise. In the second instance we have to remember the profound moral and spiritual dissatisfaction of many connected with industrial production—and of many who, though not taking a direct part in it, nevertheless share in its results. This is not yet the time to discuss "democracy in industry," but the fact to be borne in mind is that a system of industrial organization that might have been psychologically adequate and workable half a century ago will no longer satisfy the claims of the educated skilled artisan of to-day, nor the demands of a social and moral conscience that gets keener every day, and is not satisfied that economic necessity really stands in the way. In other words, the elementary rights of man, which, we saw, have to be assumed as essential to any political thought, involve, in the eyes of many, such a drastic reorganization of our industrial system as constitutes one of the most urgent economic functions of the State.

The Rights of the Consumer. If we now pass to the second side of the problem, the duty of the State to the consumer, we find again that, as in the case of the producer, questions arise both of production and distribution. The consumer has rights. He has a right to

demand such a system of distribution as will bring goods at a price really corresponding to the cost of their production, and not artificially increased by the intervention of too many intermediaries or by the rapaciousness of profiteers, a system so arranged that no section of citizens shall be deprived of access to necessities of life; while, at the same time, no section shall obtain a share far in excess of its necessities, if others be thereby deprived. He has a right to demand that the share of the community as a whole shall be recognized in the distribution of wealth, remembering that there is no wealth outside Society.* He has a right, in other terms, to demand that the distribution of wealth be in harmony with that social justice without which there can be no true moral life.

The consumer, however, is not interested only in distribution, he is vitally concerned in production. This in a variety of ways. He has a right to demand that goods sold shall be what they purport to be, and, what is more important, he has a right to demand that production correspond to real social need and not to the vagaries of the law of supply and (economically effective) demand. And he claims his right to claim State intervention in the direction of production if such social needs be not met by private enterprise.

Problems of "Freedom" in Production. We have already just touched on this matter, but it is of such fundamental importance that we must return to it in fuller detail. One of the most unquestioned axioms of economic theory was that absolute "freedom" of production was the best guarantee of those articles being produced for which there was the most demand.

* "All productivity is the result of co-operative effort. The individual is entitled to a reward for his own productive effort. The community is entitled to receive the benefit of the co-operative aspect of that effort." (*Industry and the State*, p. 138.)

It is obvious, ran the argument, that no manufacturer will trouble to produce what is not wanted; he may occasionally misread his purchasing public and waste money and labour in the production of an unnecessary article, but that will be a rare accident; he manufactures to sell, and if there is a willing buyer, there is evidently a need to be met.

From the standpoint of pure theory, the argument is perfectly sound; but it rests upon a fallacy, the identification of real need with economic demand. Under a perfectly equal system of distribution of wealth this identification might be admitted. If everybody had the purchasing power necessary for his real needs, then effective demand would correspond, accurately enough, to real need. But under our present system this does not happen. A labourer earning 50s. a week, and bringing up a family of six on that sum, has a need for food, clothes, lodging, and amenities essential to a decent life far in excess of his purchasing power or effective demand. This point hardly needs to be laboured to a generation that has suffered from the housing shortage; we have all seen labour and capital that should have been given to the building of new houses used for the building of cinemas, of palatial banks and other commercial premises. Time after time cake is being produced when bread is wanted, because those who like cake can make a more effective economic demand than those who need bread.

Nor is this picture complete. There are periods of "trade depression" when goods, useful and essential enough, are produced in large quantities and there is no one who can afford to buy them. Here again a generation that has witnessed the unemployment tragedy of the last few years needs no elaborate illustrations. Who has not seen shops full of the primary

necessities of life at low prices, but empty of all customers, with the result that after a while the output became deliberately limited? Who has not read of grain being used as fuel in South America while Russia was starving? Is not, in fact, the real problem of to-day that there is a divorce between production and real need? Is there not a dislocation of the economic world, which deprives whole sections of our communities of an effective demand for the necessities which other sections would gladly produce if they could be paid for the labour?

Production and the Desire of Acquisition. We are thus confronted to-day with the fact that there is no adequate correspondence between social need and effective demand, and that production as at present controlled is not primarily directed to meet need, but to make profit. This, of course, is not to say that there are not many investors and manufacturers whose motive is service to the community, and who would never dream of engaging in industrial activities that were not socially useful. But the whole of our economic system rests on the fundamental assumption that "the desire of acquisition is the dominant incentive"*; and it cannot be denied that production is therefore directed by considerations of profit more than by considerations of need. This is not to condemn anyone. It could scarcely be expected that those who now control production should produce at a financial loss. But it does raise in an acute degree the question whether a different method of control could guide production into channels of social utility without leading to financial disaster.

Where lies, at the present, the ultimate control of production? In what sense is production "free"? What are the assumptions that underlie our productive

activities? It is surely that the suppliers of capital are the sole judges of what should be the policy of any enterprise, and in particular of what should be produced, because they are alone involved in loss should the enterprise fail—ignoring the “loss” to the whole salaried staff. Further, under the system of the open market, capital will flow into such industries as are most directly remunerative, irrespective of their social utility.

The point, as we said, is fundamental. It is generally assumed that the present system, in which the owners of capital control production, has, whatever its disadvantages, at least the advantages of resulting in the highest possible level of production, because no other systems will give such free play to individual initiatives and offer such scope to the development of technique, adjustment to new conditions, and essential elasticity in general.* But, whatever be the merits of private enterprise, as it is usually termed, those assumptions hardly seem to correspond with facts, or at least they ignore vital realities. They take for granted that the present system is elastic and adjustable: but, we may ask, to *what* does it adjust itself—to real social needs or to the fluctuations of the market, i.e. to effective economic demand? Again, all this takes for granted that *quality* is the main issue in production, whereas our contention is, firstly, that a superabundance of luxuries, or even of useful goods, will not make up for an absence of necessities; and, secondly, that the production of necessities is of little worth if there be no purchasing public for these. We are thus perpetually driven back to the twofold problem—the production of necessities

* See on this point Sir W. T. Layton on “The State in Industry,” in *Essays on Liberalism*, 1922. He goes on to remark, however, that the present actual output is *less* than the potential.

and the distribution of wealth so as to secure an effective demand for the necessities thus produced.

The Case for Social Control of Production. All this leads us to the conclusion that the State's duty to the consumer may very well involve even greater changes in the industrial organization than those possibly necessitated by the State's duties to the producer: or, at least, that both converge to raise very acutely the question whether the State's duty both to producer and consumer may not lead to the assumption by the State of a very considerable measure of the control of production. What form this should—and might—take will be discussed later: all we need say here is that this social control could assume many forms; there is not just one alternative to unlimited private enterprise. What does appear at this stage is that unlimited private enterprise, however successful in producing a great variety of goods in large quantities, and in raising very considerably the general standard of life, has proved both materially and morally inadequate to meet the needs of a society that will not live by bread alone. To the ordinary worker it has failed to secure regularity of employment, or that share of responsibility in labour necessary to self-dignity: to the same man as a consumer it has failed to guarantee either the regular supply of essential necessities or that share in produced wealth that will enable him to obtain such necessities: to society as a whole it has failed to give an industrial system in which the meeting of social needs—i.e. service to the community—is the primary consideration. On the other hand, it has given the owner of capital not only that payment of his services to which he is entitled, but the complete control of the system in which his capital is only one of several factors. It has tolerated the divorce of function from property, of

acquisition from work. Further, and this is perhaps more important still, to any suggestions that it should reform itself it has replied by a confession of its helplessness. It has declared that service can never be an adequate incentive to work; it has questioned the possibility of anything approaching equality of wealth; it has resisted any interference with the rights of capital. It has certainly failed to refute the contention that there was a clear case for inquiry and possibly for drastic readjustment.

The responsibilities of the State, both to producer and consumer, will involve, therefore, a fresh consideration of the problem of social control in production. It may be said, in fact, that there is a widespread agreement that the limits of possible State action in the *distribution* of wealth are very soon reached. The point is whether the national resources are being used to the maximum of their productivity, whether the national income cannot be made to yield more, whether there is not at present much misapplied energy and great waste. In fact, thinkers of all parties would probably agree that the secret of national prosperity lies in production; where they differ is in the methods by which production can be made to reach its highest point, not only of quantity but also of quality.

Our contention is, then, that no way out of our present difficulties, i.e. no real protection of the rights of producer and consumer, can be discovered outside the social control of production. Such control will take many forms; no rigid formula can be set up. The interests of the citizens will vary considerably according to the nature of particular industrial enterprises; they are more concerned with bread than with champagne, with tramcars than with racehorses. In other words, the responsibility of the State will vary according to the

relation of the economic activity concerned with the immediate welfare of the community.

Variety of Forms of Control. The present writer refuses to admit that private enterprise has so justified itself by results as to have established its claim to freedom from social interference, neither does he believe that any single formula, whether Communism, State Socialism, Guild Socialism, or Syndicalism—or *laissez-faire*—can be applied to the whole of industry under all conditions. It is, we believe, a grievous mistake to group together under the one definition of “industry” all those various activities which one way or another contribute to the material welfare of men. That the provision of railway communications, the supply of milk, the manufacture of boots, the printing of a newspaper and the providing of ice-cream on Hampstead Heath, should all be governed by the same abstract principle, whether “private enterprise” or “State control” is an absurdity. Further, to confine ourselves to the one domain of communications, it is evident that the maintenance of a railway between Liverpool and Manchester is one thing and the running of excursion steamers from London to Margate another. Again, we may talk of the “clothing industry,” but there is little in common between the manufacture of workmen’s overalls or cheap suits and a “creation” by Paquin. To each one of those varied economic activities there may well correspond a different industrial organization.

This variety cannot be studied in detail, nor can all possible industries of a modern society be adequately classified. But it is, nevertheless, possible to distinguish three main categories of economic activity, each category corresponding to a varying degree of immediate relationship to the essential welfare of society. Firstly, those which are by their very nature monopolistic and

which are so essential that they must be maintained even if they yield no profit. These (which would include all resources of which the supply is limited, such as coal, with the kindred organization of electricity and gas supply, communications, etc.) the State must control directly and completely by some form of nationalization. The second category comprises those which are not necessarily monopolistic, but in which social interest is direct and immediate, and in which control must appear to a large degree: agriculture, for instance, the supply of milk and bread, and in a lesser degree other trades closely connected with everyday life. Thirdly, all industries not of a sufficiently vital character to come into the first two categories, in which the State need only interfere in varying degrees to secure certain conditions of labour, to protect the consumer against extortion and fraud, and to ensure that no capital and labour be diverted thereto which are really needed elsewhere.*

* For an elaboration of this classification, see Laski, *Grammar of Politics*, pp. 436 *et seq.* In a strikingly modern, though over forty-year-old book, *The Relation of the State to Industrial Action* (American Economic Association, 1887), Mr. Adams claims for the State the power to restore for Society the benefits of monopoly, and to determine the plane of competition; he would leave to private enterprise industries with constant or diminishing returns "in which the struggle for success is a struggle to depress the cost of rendering services rather than to raise the prices of services," and make the State take over industries with increasing returns.

CHAPTER VIII

SOCIAL CONTROL OF INDUSTRIAL PRODUCTION

THE complete social control of what we may call, for want of a better term, essential monopolies does not need defending by elaborate arguments. Not only from the Socialist but also from the Conservative and Liberal camps come admissions that the national interest in such vital necessities as coal, electricity, communications can no longer be secured by leaving these to profit-making private enterprise.* Serious divergencies only appear as to the manner of exercising social control and (even more) as to the processes of transition from private to social control.

Profit-making private enterprise has failed in exploiting those essential monopolies just because it is profit-making and private while they are essential and monopolistic. Profit-making cannot be tolerated in enterprises that provide an essential article—such as gas—of which they must inevitably have a monopoly. since two gas supplies in one district are obviously impossible—wherever, in fact, use must be the first consideration.† There are commodities so necessary

* See "Industry and the State—a Conservative View" *passim*, and Clay's *Economics for the General Reader*, Chapter VII; also the description of public ownership in Canada (not under Labour rule) of railways, hydro-electric power, merchant marine, commercial air service, moving pictures, and (to some extent) of coal given in the *Economist*, 11th June, 1927. The *Economist* concludes the article by saying that "this progress must not be confounded with Socialism as we understand it in European countries. . . . The State Control I have indicated is merely the operation of certain utilities which the Federal and Provincial Governments of the Dominion are undertaking for the general welfare."

† Private gas companies do still exist, but their capacities for profit-making are so limited as to place them virtually under State control.

that they may have to be provided at an immediate economic loss in order that they may be within the reach of the poorest and yet their producers receive adequate remuneration. Such subsidizing may be in the long run a sound investment. It is, of course, true that "production must pay," but it does not follow that certain necessities may not have to be produced at an immediate apparent loss, which no profit-making concern could stand, and which the community as a whole must bear, believing it to be in the long run a sound investment. Public parks, gratuitous education, and free libraries, are instances of such investments; and it is possible to visualize a great extension of such enterprises, the necessary taxation being found to lead ultimately to greater general productivity.

Conditions and Forms of Nationalization. State control, we have said, appears to be the only possible solution to the problem of essential monopolistic services.* That means that no smaller group or unit can be trusted with the management of a concern in which the whole nation is vitally interested. It does not mean that the industry or service will necessarily be run by an army of Whitehall bureaucrats; nor even that a uniform system will be applied to all nationalized services. It may be reasonably argued that railways, coal and electricity are three monopolies that could be "nationalized" in three different ways—particularly if municipal control be admitted as equivalent to nationalization for commodities of local rather than country-wide interest, such as gas and trams. It does mean, however, that these industries will belong to the State as representing the nation as a whole; that the means of

* We would add to these State services the control of the supply of raw materials, but this is an international rather than a domestic problem and must be reserved for a later chapter.

production will be national property; that the policy that governs the industry be directed by bodies responsible to Parliament itself and that there will be no profit.* It also goes without saying that the workers must have such a share in the control of the industry as will satisfy their natural demand for responsibility. This last point, to which we shall return in a later section, is, of course, fundamental to any sound industrial organization, and is not characteristic of nationalized industries, but it is no less important here than elsewhere: however great the satisfaction of working for the community rather than for a private employer (and we believe it is very great), it is not sufficient to compensate for the autocratic methods of administration to be found in many Government departments of some so-called "democratic" States. But just as profit is eliminated, so must ultimate control rest outside the actual producers: in matters of national necessity the ultimate authority must be national. In other words, it is the duty of the State to direct the functioning of those economic activities which fulfil social needs so imperative as to lie outside the scope of private enterprise.

Disagreement as to methods of social control must inevitably extend to the enumeration of those activities which cannot be safely left to private hands. We have mentioned coal, gas, electricity, railways, and essential communications, to which should be added those already nationalized departments such as roads, post office, telephone, etc. But what about shipping? Or banking? Or the meat supply?†

Our own bias is very frankly for State control in

* Unless such profit be definitely earmarked against the loss incurred in the production of some other necessity, in which case it is really a form of indirect taxation.

† The most obvious problem is that of the land. It will be dealt with later as a separate issue.

cases of doubt; as soon as a branch of economic life is becoming monopolistic, it should be taken out of private hands. Private profit limited by competition may be defended; private profit from monopoly cannot. This is not being blind to the dangers of bureaucracy—its lack of elasticity, its slowness, its opportunities for political influence and corruption. But we have all heard also bitter criticisms of the lack of enterprise often shown by private “enterprise,” of hidebound conservatism and routine displayed in many business quarters, of dishonesty and sharp practice that are not always legal offences. We frankly believe, in fact, that there is no great difference between the methods of a Government department and those of a business firm: a country that will tolerate corruption and inefficiency in its officials is scarcely likely to have high moral standards in business or to have introduced Taylorization and efficiency managers in its factories. The moral and intellectual level of a community may be assumed to be much the same all over—and in virtue of this principle we will refrain from pressing the argument that more regard to the real welfare of society as a whole may be expected from the disinterested civil servant than from the profit-making business man.*

We are, therefore, for our own part, unable to tremble in our shoes at the bogey of the coal or of the electric supply being controlled from Whitehall on lines similar to those that control the Post Office at the present time. But it is essential to remind ourselves once more that nationalization can take many forms, and that one of the essential duties of constructive thinkers is precisely to construct different constitutions to suit different

* See Tawney's *Acquisitive Society*, Chapter VII, section C, “Nationalization as a Problem in Constitution-making,” for an illuminating treatment of the familiar antithesis between “nationalization” and “private enterprise.”

nationalized industries within the essential conditions stated on a previous page.* The Sankey Report recommended a certain federal form of government for the coal industry; the late Conservative Government had another scheme for the nationalization of the electric supply; during the war key industries were virtually nationalized in a great variety of forms. The Dominions and the United States also offer us a considerable variety of forms of national control. Further, the form that national control will take must, of course, largely depend on the circumstances in which nationalization appears. A Conservative Government, for instance, will nationalize the mines very differently from a Liberal or Socialist administration—but the nationalization of the mines in some form in the near future appears to us as certain as the rising of the sun (or its setting, for those who would see in such a step an unavoidable evil): and the same can be said of the railways: just as Conservatives, Liberals, or Socialists would probably offer a very different treatment to royalty owners, so they would adopt a very different attitude towards the enormously watered capital of the railway companies. But revolutionary nationalization and "confiscation" do not seem very likely to prevail: the process is likely to be gradual and piecemeal, and its financial methods calculated to maintain goodwill rather than irritate by alleged spoliation: a slightly higher income tax or slightly dearer coal may be a

* Mr. G. D. H. Cole, in his *Next Ten Years*, recommends socialization by means of boards of commissioners, responsible not only to Parliament in an indirect and often nominal sense, but directly to "some public authority capable of co-ordinating their several activities and defining for them the general course of policy which, as administrators, they are called upon to pursue. . . . Society lacks at present a central organ for the control of economic policy. Until that is provided, no really satisfactory form can be developed for the socialization of any enterprise" (p. 136).

small price to pay for maintaining national credit and avoiding even the appearances of highhandedness. What matters is that the transfer from private to public ownership of those essential activities be thoroughly understood by public opinion, and should be really complete: half-hearted schemes are apt to satisfy nobody, and to have no merits of their own while maintaining the disadvantages of the system they were meant to supersede.

Essential Necessities and Municipal Control. We now come to the supply of those commodities which we described as "not necessarily monopolistic, but in which social interest is direct and immediate." It is as difficult to frame a comprehensive definition of what this category would normally include as it was to define our first category; but whereas "natural monopoly" seemed to cover the first, so "essentials" would cover the second. We are concerned here with those commodities which are really essential to a normal existence: essential foodstuffs, ordinary clothing, houses. Now it may easily be argued that it is the duty of the State to see that these are provided, ample in quantity, adequate in quality, and accessible in price to all; and a strong case can be made for their nationalization as well as for the nationalization of monopolies. But, as we said before, we are not concerned with the abstract argumentation for and against "Socialism" or "private enterprise": we are endeavouring to frame a programme of State economic policy according to clearly defined principles applied to concrete cases as these present themselves.

Now it is quite clear that the State cannot divest itself of responsibility in the supplying of necessities. Laws against adulteration are obviously not enough; anti-profiteering measures, inadequate as they prove to be, show that the making of unlimited profit in this

manner is no longer tolerated by the community ; while building subsidies are an admission of State responsibility for the provision of houses. In other terms, it can be taken for granted that—in addition to its duties of protection to producers in all spheres of industry—the State has the duty of controlling the supply of essentials as regards adequacy of quality, quantity and accessibility. The point at issue is therefore not “whether” but “how,” and it is there that the parallel with natural monopolies breaks down. Our defence of nationalization was built on the principle that the service was so essential and so vast that no organization of lesser power than the State, or operating on a smaller area, could adequately handle it. But we are now dealing with commodities of a different kind. Not only are they not natural monopolies, but even when they virtually are—as in the case of tramcars, for instance—the area of effective control is much too small for the work to be efficiently done by the central government ; and local conditions may differ too much to allow of a single form of authority for the whole country.* The demand for something more elastic and less distant than nationalization appears to us as strong as the protest against unchecked private enterprise. We would even eliminate the word “unchecked,” and urge that this is a sphere of economic activity from which private enterprise should be gradually but entirely removed. Any profits accruing from such activities are social creations and should go to the community.

The function of the State in this sphere would seem to us to give free play and encourage by all possible means an economic system that could secure the supply

* Yet note how the problem of motor transport has become a national matter and necessitated the appointment of a Traffic Board with virtually dictatorial powers.

of necessities without this being a source of private profit. Of such systems there are two that we believe peculiarly fitted to those industries we are now considering, municipal control and consumers' co-operation. There is nothing either very novel or very revolutionary in either of these; and it is not suggested that they offer a solution of the whole industrial problem. But each has certain definite advantages for certain definite departments of production.

Municipalization* appears to us to be the obvious method of ensuring social control over the supply of two types of commodities: those that are a natural monopoly—or *quasi* monopoly—over an area too small to be suitable for central State control, and those that are so uniform and standardized as to be a virtual monopoly, and in the supplying of which competition merely introduces waste, without really benefiting the consumer—milk and bread are evident instances.† The wastage in the milk retail trade is enormous: we have all seen several competing firms delivering milk in the same street.‡ When a firm has a virtual monopoly, then overlapping disappears, but the profits go into private pockets.§ Such monopoly profits should return to the community.

The function of the State should therefore be, in this connection, to encourage and support every form of municipal industrial enterprise. It need not make municipalization compulsory: the matter is mainly one

* It goes without saying that we include under that term control by all local authorities: County, Borough, Rural District Councils, etc.

† To this may be added housing, municipal ownership of buildings appearing to be the only solution to the problem.

‡ A few years ago, in Derby, the Co-operative Society, with 84 distributors, supplied half the total consumption—17,000 gallons weekly; the remaining half were supplied by 224 retailers.

§ The United Dairies, Ltd., paid 12½ per cent from 1920–1923 each year, 14 per cent in 1924 and 1925, and 10 per cent 1926–1930 each year.

of local interest which can be settled locally. But the State should not only grant all the necessary powers, but provide the necessary credit facilities and, generally speaking, put its resources—legal and financial—at the disposal of all new departures in municipal enterprise, as being the most effective way of ensuring direct social control over the production of those primary necessities the area of production of which is local rather than national.

Consumers' Co-operation. There are, however, a number of commodities that cannot be called other than vital, from which, therefore, the element of profit should be eliminated, and which, nevertheless, demand in their production more variety and elasticity than municipal control can provide. It is difficult for local bodies to keep in close contact with consumers and their varying tastes; their particular province is obviously commodities that are almost standardized. The reconciliation of social control with the adequate expression of individual desires would seem to lie in the development of consumers' co-operation.

It is hardly necessary to describe the co-operative system.* Its object is precisely to provide its members with necessities by methods of production that eliminate profit: either goods are sold at cost price or (more usually) the profit returns to consumers in the form of bonuses. The system has, of course, its limitations†: it

* For a description of the co-operative movement, see Woolf's *Co-operation and the Future of Industry and Socialism and Co-operation*; and Sidney and Beatrice Webb's *Consumers' Co-operation*. There are at present over 80,000 agricultural co-operative organizations, over 105,000 co-operative credit societies, and more than 90,000 consumers' co-operative societies, supplying nearly 40 million families. (See Milhaud's *Annals of Collective Economy*.)

† In addition to these, Mr. and Mrs. Webb point to the following present weaknesses of the movement in Great Britain: the persistence of credit, general apathy, dividend-hunting, overlapping, corruption, and favouritism, the lack of an efficiency audit, and failure to touch vast strata of the population. None of these weaknesses, however, can be said to be inherent in the system.

can only undertake to produce that for which there is a fairly widespread demand, and has so far tended to cater for the needs and tastes of the upper working class, although this is by no means necessary: the Army and Navy Stores are really an upper middle-class co-operative institution, and there are—theoretically at least—no limits to the possible expansion of the movement. The co-operative movement is the biggest flour miller in the kingdom; it owns agricultural land in England, wheat fields in Canada, tea plantations in India and Ceylon. To put it summarily, the challenge that co-operators make to economists who still believe in the capitalist system is that “the ownership and administration of the instruments of production by communities of consumers obviates any abstraction by individuals of the tribute of rent, of the tribute of monopolistic gains, and (in so far as this is derived from the frequent and indeed normal excess of price over necessary cost of production) of the tribute of profit, and that no other form of industrial organization offers these advantages . . . They also object to the power which the mere ownership of the instruments of production gives to a relatively small section of the community over the actions of their fellow citizens and over the mental and physical environment of successive generations.”* Consumers’ co-operation is, in fact “a vast flourishing anti-capitalistic system in the very centre of the capitalist system of industry,” and is undoubtedly an eminently successful method of social control in production—direct control by society organized as consumers.

The State and Co-operation. The question arises as to the relation of the State to the co-operative movement. Co-operators are here divided in opinion, some,

* Webb, *Consumers’ Co-operation*, pp. 392–394.

like Mr. Woolf, urging compulsory membership of a co-operative society for every citizen, the co-operative movement thus becoming virtually co-extensive with the State; others, like Mr. and Mrs. Webb, clinging to voluntarism as the very essence of the institution. The Webbs go so far as to deprecate the formation of a single national co-operative society under central control.

We need express no opinion on this last point: on the issue, we agree that State compulsion scarcely appears necessary. It is all ultimately a question of efficiency: if the co-operatives, once given a fair chance, can prove their superiority over competitive institutions they will soon rally the large mass of people. They do need, however, a considerable measure of encouragement and protection, and should be given by the State certain definite advantages over bodies working for private profit: co-operative societies should be the recognized distributive agencies for all commodities supplied from nationalized production—and in many cases from municipalized production as well. They should be given credit and trading facilities, relief from taxation and, generally speaking, every kind of help they need, particularly in their early stages. Further, they should be given adequate protection against attack from private interests, more particularly against the numerous existing forms of unfair competition; but this will be examined from another standpoint later.

The function of the State is, of course, not limited to encouragement and support; it has to control and criticize as well. The co-operative movement solves the problem of the protection of consumers; it eliminates waste: it eliminates unnecessary advertising and the artificial stimulation of fancied needs; it guarantees automatically the quality and price of its goods. But

it does not necessarily protect the producer, and must conform, no less than private enterprise, to such regulations as the State will devise for the purpose of guaranteeing the personality of the worker. What is true of co-operative is also true of municipalized enterprise; there also the State has to exercise its duties as a guardian of individual rights. But of this more later.

Closely linked with the question of consumers' co-operation is that of the transfer by the State to municipal or co-operative control of various enterprises now under private control. Should this be compulsory?

It is impossible to generalize, but it seems to us that such transfer need not be legally forced except in special circumstances. If the people of a particular town really prefer a multiplicity of milk retailers to one central supply, let them have it, provided the supply is pure and the rights of the producing staff safeguarded; and provided ample publicity be given to the profits made and to the expenditure that goes to wasteful overlapping. There is no need to prevent any private firm from producing and supplying a primary necessity if it can find customers, provided always that it does not acquire a monopoly inconsistent with the interests of the community. But if the State sees to it that co-operative or municipal enterprise obtains all necessary encouragement and protection, one can expect the non-profit organization ultimately to obtain the mastery of those particular fields we have been considering, namely, those commodities for which there is a widespread demand and no great variation in tastes and desires. What is important is that the State should clearly take sides; it is not a neutral onlooker of a struggle between private enterprise and socialized production; it believes the latter to be more in harmony with a rightly organized society and acts accordingly.

Strength and Limitations of Co-operation. There would appear to be, as we said, no theoretical limit to the development of consumers' co-operation; its great strength is that, representing as it does the principle of community service and not private profit, it can be fitted into nationalized or municipalized services, either to act as their distributive agents or to take over entirely such activities as are too complex for central or local government. But it has, as we saw, certain limitations in practice.* The very fact that it is directly controlled by the consumers implies that it will be best designed to meet the needs of the great mass, rather than specialized wants; it is mainly in the field of large-scale and almost standardized production that it is likely to expand. If neither State, nor municipality, nor consumers' co-operation can be expected to solve the problem of production, it follows that we must look to other methods. This does not necessarily mean private enterprise as we now know it—there are many other possible forms of industrial organization—but it does mean that the social control which we have come to regard as essential will not be exercised in so direct or immediate a way.

Other Forms of Social Control. It would be impossible to enter at this stage upon an exhaustive analysis of the various alternatives put forward to our existing economic institutions. We believe, as we have said, not only in the possibility but in the desirability of many forms of productive activity; we welcome experiments in any direction that may help us to make this world a place fit to dwell in, not for heroes only but also for ordinary people—provided always that all those

* This statement would, of course, be challenged by many who see no reason why the whole of production and distribution should not be carried on by consumers' co-operation. (Cf. Woolf and Webb, also Laski, for a reply to their contention.)

systems and experiments are adjusted to that social control of production which we have seen to be necessary to the welfare alike of producer and of consumer.

This essential control may be exercised in a large number of ways; it may, in fact, be adjusted to many forms of industrial organization. No one solution is going to fit all cases; there are industries in which small businesses and factories obviously imply great waste, and others in which there is even room for the one-man business. The point at issue is always to discover, given a specific economic need to be met, which form of organization is going to meet that need in the most adequate manner, securing the welfare of the producers, the demands of the consumer, and the necessary degree of essential social control.

Private Enterprise. Even in a community where industry is highly socialized, there remains, as we saw, a sphere for private enterprise,* with its necessary corollary of profit-making. Our next task is to see how this can be reconciled with that measure of social control which is essential for the safeguarding of the moral personality of all those concerned.

It is evident that in this, as in all forms of production, the individual producer has rights to be defended; further, that the consumer is entitled to protection against fraud of every kind, widening this term so as to include much that is still legal; thirdly, that the provider of the capital can claim guarantees both against wilful misrepresentation by company promoters and

* We are using this term in its widest possible sense; it does not exclude a large measure of social control, but only the social ownership of the machinery of production, and the return to the community as a whole of all profit made. The co-operative movement is in a sense a form of collective private enterprise as long as it remains a voluntary association; so is guild socialism, in so far as its endeavour is to make industries entirely self-governing and free from any control by the community as a whole.

against their incompetence; finally, that society as a whole has a right to see that resources that could be utilized for useful purposes are not squandered on wasteful enterprise.

The first point, which is the most important, we shall leave to the last, since it concerns equally all forms of industrial production, whether privately or socially controlled. All that need be said here is that, essential though it be, it is not the whole problem. Granted the fullest measure of self-government within an industry, only one part of our problem will have been solved. The most democratically organized industry may be tempted to make excessive profits or to defraud the public either in the quality of the goods produced or by embarking upon doubtful undertakings. In a word, the triple protection of consumer, investor and community still has to be secured, though it may be admitted that the fuller the degree of self-government, and thereby of participants in control, the less intense the need for such protection is likely to be.

The Protection of the Consumer and of the Investor.

It will be the duty of the State to devise the measures by which that triple control will be made effective. The essential points can be set forth very briefly.

(a) *Guarantee of Quality.* Firstly, then, it seems that the consumer needs a much greater guarantee as to the goods he buys being actually what they purport to be. The scope of the anti-adulteration laws needs wide extension and greater stress laid on exact accuracy in advertising. Profiteering, that bane of unchecked private enterprise, can be attacked simultaneously from a number of points. Actual regulation of prices is, as we saw during the war, perfectly possible for a number of articles of so current a use that the real cost of production can be easily ascertained. But, even apart

from this, there are four principal ways by which excessive profit-making can be checked, all of which are direct functions of the State: the State control of raw materials, the limitation of dividends, a great increase in the publicity of balance sheets and of industrial processes, and the elimination of monopoly profit.

The State control of raw materials is obviously an international matter to which we shall therefore return later: suffice it to say here, that it is one of the essential keys to adequate social control in industry. The limitation of dividends is really the corollary of the much-needed increased protection of the investor. The adulteration of a company prospectus is a crying evil to which the law provides but inadequate remedy, but we are not thinking of this as much as of protection against incompetence. It is truly amazing that while an unqualified person may not receive money for suggesting a remedy for a cold in the head, anyone is free to borrow money, by the formation of a limited liability company, for the most hopeless scheme of industrial adventure, defrauding, in fact, though not necessarily in intention, not only the equally incompetent investor but the public at large by the squandering in such schemes of capital needed for more socially productive investment. Surely it should not be beyond the bounds of human capacity to devise some kind of test by which to secure a minimum of business experience and efficiency on the part of him who would control not only capital but the livelihood of those whom he proposes to employ, together with a minimum guarantee as to the probable soundness of any venture that appeals to the public for money and to the law for protection.

(b) *Limitation of Dividends.* But if Society thus protects the investor, it is only fair that Society should share in the profits he may make. Dividends, in other

words, should not be the unchecked property of the shareholders, but should be shared, partly in the form of taxation on profits, partly by their compulsory re-investment into the company for new plant, additional capital or expenditure in some directly productive way, such as research into improved methods of production.

(c) *Publicity in Industry.* We have also alluded to a much greater publicity of balance sheets as a check in excessive prices. The whole matter of publicity in industry is one on which too much stress cannot be laid. Ample information is now available as to the costs of production of most articles, particularly once we have secured the State control of raw material. With minimum wages firmly established, with powerful trade unions and strict regulation of working hours, together with the tightening of Adulteration Acts, it should become impossible for any concern to make extra profits out of longer hours, lower wages, or defective material. The main problem of profits is, however, the elimination of monopoly profit, that is, the restoration of really free competition, under which profit really represents efficiency. This elimination, as we saw, must be done by monopolistic industries passing entirely under some form of control by which all profits go directly to the community. Once true competition is restored, custom and publicity will virtually fix prices, and only improvement in methods and sheer efficiency will enable one firm to produce more cheaply than another: or better, competition will become competition in quality rather than competition in prices.*

(d) *Guarantee of Supply.* The protection of the consumer will finally have to be assured along two channels.

* It is scarcely necessary to remark that this rule already operates in industries such as that of scientific instruments, surgical requisites, etc., where quality rather than cheapness is the essential consideration.

The first is the guaranteeing of the supply of socially useful commodities as against luxuries. As long as capital and labour are abundant, the production of luxuries may, up to a point, be tolerated, although there are things that no self-respecting man should be compelled by economic necessity either to produce or to sell.* But in times of economic pressure such as ours it is surely a duty of the State to prevent the investment of national resources along socially wasteful channels. Hence, the generally recognized need for some kind of national investment board, that will deflect capital from socially wasteful, even if temporarily profitable, channels, to the supplying of society's real needs. Further, as Mr. Cole points out in his *Next Ten Years*, there is not only the problem of direct waste, but also the question that "it is notoriously difficult to raise capital for investments which require a prolonged period of waiting before any adequate returns can be expected Our existing economic conditions have conspired to make unattractive a great many of the investments which offer the greatest prospect of social advantage If we are to get our old industries re-fashioned and new industries developed to employ our people, it will be necessary for the State to take special steps to ensure the provision and direction into the right channels of the capital which is the indispensable basis of national reconstruction." This will involve, Mr. Cole adds, the guaranteeing of dividends by the community. Not only the competence of the *entrepreneur* but the utility of his scheme should be guaranteed to the community. It is the duty of the State, in the second place, to guarantee that the price of

* It would be difficult, as Sir Leo Chiozza Money points out in his *Triumph of Nationalization*, to imagine a greater social waste than the labour and materials expended on the making of sandwich-men shoulder-rests and boards.

commodities will not be inflated by unnecessary middlemen. In 1920, Mr. McCurdy, then Food Controller, stated that "every one of the ten million packages of fruit imported yearly into London is taken once or twice across the heart of London at an appreciable and in the majority of cases an unnecessary expense. . . . In theory, there is no reason why the Minister of Food should not create the necessary machinery." What is true of fruit and vegetables is true of numberless articles. Where machinery can be devised to eliminate such economic parasites, the State should create it, as Mr. McCurdy suggests; where it is not possible, the opening of municipal retail shops should avail to bring articles direct from the factory to the consumer. Municipal retail shops, it may be added, have also proved of great value in checking profiteering, as the butchers, dairymen, greengrocers and various other retailers of many French and German towns could testify to their cost.

Private Enterprise and Political Influence. The guarantees discussed above do not, of course, exhaust the question. Behind them all lies a problem on the solution of which largely depends the future of private enterprise, and that is, that those economic activities left to private enterprise should indeed remain private enterprises and not attempt to utilize for private gain the machinery of the State or any other organs that exist for the good of the community as a whole. "Franchises to the use of streets and highways, the grant of rights of way, concessions of charter privileges, legislative sanctions to corporate undertakings, lucrative usufructs of various species of public wealth, real estate developments in connection with municipal improvements, etc., are fields of investment for many millions of private capital, an obvious policy with whose

representatives is *to confederate their interests with political influence.*"* This "confederation" is in the eyes of many the real danger of private enterprise, even more than excessive profits. We have all seen the economic power of trusts, the economico-political power of men like Stinnes, Rathenau, Loucheur, Schneider; however well-meant, however exercised for what they might conceive to be the public welfare, such powers cannot be left in the hands of irresponsible individuals. Private enterprise must submit to whatever control is necessary to guard against this "confederation of interests with political influence"; and as size appears almost inseparable from power it would seem that no undertaking could entirely be left in private hands which threatened to grow so large as to become inevitably a power in the State.

* President of the American Sugar Refining Co., quoted by Laski, *Grammar of Politics*, p. 477. (The italics are ours.)

CHAPTER IX

THE PROTECTION OF THE PRODUCER

WHETHER the industry itself be controlled by the State, the municipality, a co-operative society, a limited liability company, or a private employer, it is essential that the State should establish for each individual worker an industrial status worthy of his dignity as a moral personality.

Industrial Unrest as the Desire for Freedom. Much of the present industrial unrest is due to a desire for freedom and responsibility, even more than for shorter hours or higher wages; no peace in industry is possible without meeting claims that may indeed be expressed in over-aggressive tones and with inadequate realization of the difficulties involved, but which represent rightful desires and a proper readjustment of economic power between the providers of capital and the providers of labour.*

Before defining the conditions of a new status, however, it is the first duty of the State to recognize and strengthen if necessary those rights that are already enjoyed by the workers, and particularly those of the trade unions. Without going here into the whole problem of the position of trade unions and of other associations within the State—a problem which the Trade Unions Act of 1927 has put in the forefront of present-day politics—we shall content ourselves, at this point, with emphasizing the absolute necessity of strong unions to the liberty of the worker. "Union is strength," says the proverb, but union is even more freedom:

* See on this question *The Meaning of Industrial Freedom*, by G. D. H. Cole and W. Mellor.

every advance in working-class freedom has been achieved by combination: it is only a powerful union that puts the workers on something approaching equality of bargaining capacity with the employer. Most reasonable people would agree with Sir Ernest Benn that trade unions are wanted by the public "to redress the economic balance between employer and employed."*

We look forward, therefore, in the first instance, to an extension rather than to a curtailing of the powers, both legal and customary, of the trade unions, and particularly to the extension of trade unionism in industries where it is at present ill-organized or non-existent. This extension we believe to be a proper function of the State as the protector of producers' rights; without making membership of a union compulsory for the obtaining of employment, we would suggest that no undertaking should be allowed to become a registered company and enjoy the benefits of the Public Companies Acts which employed non-union labour. It need hardly be added that the denial to civil servants of the right of association appears to us an unwarrantable interference with individual liberty.†

* *The Trade Disputes and Trade Unions Bill*, by Sir E. J. P. Benn and Prof. H. J. Laski (Present Day Papers). (An excellent short statement of the two points of view concerning the Bill.) Sir Ernest Benn goes on to say "and for no other purpose," but surely the whole point at issue is as to what constitutes this "economic balance." Many people would say that not only does the Act of 1927 destroy this balance (in favour of the employer), but that even before that Act the balance had scarcely been achieved.

† "To recognize Labour Union and incorporate it into the American legal system is equivalent to the desertion by the State of the non-union labourer. It means that in the American political and economic system the organization of labour into unions should be preferred to its disorganized separation into competing individuals. Complete freedom of competition among labourers can only be preserved as an effective public policy by active discrimination against the Unions. . . . The Labour Unions deserve to be favoured because they are the most effective machinery which has as yet been

“Industrial Democracy.” More than this is necessary, however, if the worker is to obtain that industrial status to which he is entitled; and the now current expression of “industrial democracy” will immediately rise in the reader’s mind. This undoubtedly represents a fundamental truth, namely, that some equivalent must be found in the economic sphere for that recognition of the value of each individual of which strict equality before the law and universal adult suffrage are the expression in the political sphere. But the expression is misleading if it is used in too strict a sense. “Democracy” awakens in our minds a network of institutions, the transfer of which to industry is—to say the least—a difficult matter.* The term itself, or at least its present-day connotation, is running the gauntlet of severe criticism and one could fairly be told that this was scarcely the time for extending its application. Further—and this is the crux of the issue—what exactly does “democracy in industry” involve? Political democracy assumes an equality of interest in, and responsibility for, the policy of the State on the part of all who are vitally concerned with it and with its results. But who are those “vitally concerned” in any given industry? Our whole point is that the

forged for the economic and social amelioration of the labouring class. . . . A democratic government has as little or less reason to interfere on behalf of the non-union labourer than it has to interfere in favour of the small producer. As a type, the non-union labourer is a species of industrial derelict.”—Croly, *The Promise of American Life*, p. 386.

* In his *Next Ten Years*. Mr. Cole, modifying his earlier views on the subject, stresses the “sharp distinction between democracy and representation which the development of political communities during the modern period has tangled up together in men’s minds. . . . The administration of industry is a technical business, concerned with the production of material goods at the least practicable cost in human effort. It is therefore not suited for the application of the representative principle in its main operations” (p. 170).

whole community is really vitally concerned with every industry ; when we have proved this, we have shown the necessity for various degrees and forms of social control : we then have to solve the problem as to the division of control between the community as a whole (represented by the State), the consumers, and the producers ; and when we have apportioned control between these three, we are still faced with the further question : Who are the real producers ? The lenders of the capital, the administrators of industrial policy, the manual workers themselves ? To many, industrial democracy means the whole control of an industry by the workers themselves : there may be much to be said for such a system, but to call it " democratic " is to beg the issue by assuming that State, consumers, and owners of capital can be ignored ; it is in many ways a return to the mediaeval system of economic organization, which had some good features, no doubt, and was perhaps superior to our own system, but which democracy overthrew as being oligarchic. Here, as everywhere, let us not be misled by undefined terms.

It is true, nevertheless, that in practice the problem will largely resolve itself into that of workers' control. At the present time industry is controlled by the owners of capital—that is why our system is called " capitalist "—and the actual workers, who are in many ways quite as vitally interested as the investor, have no share in this control : this is undoubtedly " undemocratic."

It is scarcely necessary, we think, to labour at great length the arguments for the development of workers' control. Both the need for it and the inevitability of it are recognized by writers who would reject any more direct form of social control. The development of the idea in the United States—the least socialistic of all countries—is a striking proof of this, and another is to

be found in a recently-expressed conservative view, that "what industrial society demands as the special contribution of our century is a philosophy to allow for the special place of the producer, now every man of him a captain and no longer a servant. We believe it may be found in the policy of industry ownership, of labour hiring capital, foreshadowed in recent American joint-stock developments."*

Power, Responsibility, and Risk. Two points deserve consideration before proceeding further. In the first place, we must bear in mind that organized manual workers have in their hands great resources of sheer power, which it would be futile to ignore and highly dangerous to try and crush. They may have used this power foolishly and awkwardly, but cannot be deprived of it; and on the right use of this power depends the economic prosperity of this and every other country. Now, history shows that the one guarantee against the irresponsible use of power is the entrusting of it with responsibility. The sharing of industrial control is, to put it at the lowest, a form of insurance against the workers' misuse of their enormous strength. Labour is, in Captain Elliott's happy phrase, "the new estate of the realm refusing supply before the redress of grievances,"† and there is but one solution to the problem created by the rise of a new estate of the realm: it must be forthwith given its due share of responsibility and power.

Further, it is often urged that it is the fundamental principle of the capitalist system—and must be of any sound system—that control should be inseparably connected with risk. Who pays the piper calls the tune. The capitalist stands to lose his money if the

* Elliott, *Toryism in the Twentieth Century*, p. 97.

† *Toryism in the Twentieth Century*, p. 83. See on this point Robertson's *Control of Industry*, Chapter XI.

enterprise fails ; it is therefore only right that he should direct the policy on which his prosperity depends. This is perfectly true as far as it goes—but it does not go far enough. It assumes firstly that the provider of capital really directs production, and secondly that he is the only person to run risks. Both these assumptions are false. In modern joint-stock companies policies are framed and decisions made by highly-salaried agents of the shareholders, who provide not capital but brains, knowledge, and experience. They run risks, no doubt, as do all the paid employees of the enterprise, but not the same risk as the shareholders, whose control is at best very indirect. And this brings us to the second fallacy : if, indeed, the paid management run risks, so do the wage-earning employees. “The whole body of manual workers launch not indeed their material capital, but the strength of their arms and the skill of their hands, in ventures over the issue of which they have no control. . . . To thousands who have felt the rod of unemployment and to millions who live beneath its shadow, the statement that the capitalist bears the sole risk of industry, and naturally therefore wields the sole control, comes with a bitter and provocative irony.”* The worker, in fact, has—inevitably—broken one of the fundamental rules of sound capitalist enterprise ; he has put all his eggs into one basket, and the smash of the basket involves the possible loss of his all ; an accident at work may mean destitution to the end of his days (in spite of the protection of Workmen’s Compensation Acts) ; illness may involve chronic unemployment (in spite of Insurance Acts) ; and—most important of all in this connection—the failure of firm or industry may spell starvation and ruin for himself and his family. On the strictest principles of orthodox

* Robertson, *Control of Industry*, p. 93.

economic theory the workers may, indeed, claim a share in the industrial management.*

Unemployment. Closely connected in fact with this question of risk and responsibility is the problem of unemployment, and no survey of the State's responsibility to the producer is possible without some reference to it. As Mr. Robertson suggests,† while "the capitalist has no very compelling motive to minimize instability and fluctuation . . . to the workman, alternations of feverish activity and enforced stagnation come as an unmixed evil, and in this matter his interest conforms more closely to that of Society as a whole," so that "capitalism's worst malady—recurrent trade depression—is intensified by the exclusion of those who shoulder some of its ugliest risks from any participation in the government of industry." We could therefore look to the extension of workers' control as a guarantee that industrial policy would seek stability rather than spectacular profits.

Workers' control cannot do more, however, than touch the fringe of the problems of unemployment; nor, indeed, can one single remedy be expected to work a cure. It is, nevertheless, one of the primary duties of a modern industrial State to face an issue that threatens to destroy it if it be not seriously grappled. It is easy to enumerate possible methods of dealing with the evil: the raising of the school age and further development of technical and general education, which would both prevent the inrush of cheap and really

* "Industry must be administered by full-time experts, but in addition to the broad control of policy exercised by the supreme representative institutions of society, the actions of these experts will need to be constantly guided and corrected by the voice of the ordinary people whose labour they have to organize and control. In this process of guidance and correction the representative principle has again to be invoked." (Cole, *Next Ten Years*, p. 170.)

† *Control of Industry*, pp. 95-96.

unwanted labour* and, by raising the intellectual level, guarantee a better supply of intelligent and really productive workers; the setting-up of large insurance schemes within each industry; more adequate provision for the passing of workers from one industry to another, by labour exchanges and training centres. But these are really side issues. Four points emerge, we believe, on which the State must concentrate as being the dominating causes of this present-day scourge: the avoidance of wasteful expenditure, in the forefront of which we would put armaments; the re-establishing of a healthy balance between industry and agriculture; the lowering of inter-State customs barriers, and the carrying out of a foreign policy that will make for peace and therefore for security and prosperity. It is, in fact, being universally recognized that unemployment has become a world-wide problem, which only international co-operation in every branch of economic life can hope to solve. The whole question is indeed much too big and complicated for any treatment to be attempted here.

The last three of these points will all come up for fuller treatment in later chapters, but must be borne in mind in any consideration of unemployment problems, and therefore of producers' protection; the first of these need not detain us long, as it has been already referred to in other connections. If it be important to protect the worker in the manner in which he carries

* We cannot refrain from quoting the following passage from *The Industrialist*, organ of the "Personal Rights Association" (reprinted in the *New Leader* for 26th May, 1928)—"The chief impediment to British agriculture is the legislation which forces children to go to school, where they get no wages, and forbids them to work for wages until they are over fourteen years old. . . . If they were allowed to work for wages they would get plenty of good food and would grow up to be strong and clever men and women, who would get schooling in the winter evenings and Sundays."

out his work, it is no less important to see that he be not employed in enterprises of little economic, social, or moral values. Here, as elsewhere, the elimination of waste must remain one of the chief cares of society's controlling agents—whoever the producer may be.

State Insistence on Minimum of Workers' Control.

Having laid down these general considerations, we may now endeavour to frame the minimum conditions of workers' control and responsibility on which the State must insist in those industries which are left to private enterprise* and which it must guarantee in those which are more directly under social control. That minimum goes beyond such measures as profit-sharing or works committees: these are, in fact, largely irrelevant to the real issue: once the workers have secured that share of control which they feel to be essential to their moral personality, it will not be difficult to apportion the profits or to organize discipline in the factories.

The point at issue is the finding of some formula that will recognize that the workers are not less directly interested than the owners of capital in the success, and consequently in the management, of any industrial undertaking. The simplest, though not perhaps the best, formula is that suggested by the American writers, Plumb and Roylance, in their *Industrial Democracy*, that for purposes of control the worker's wage should be

* It is sometimes argued that the workers will be moved by class solidarity rather than by the interest of the firm by which they are employed. The only reply we could make is that no statement could be made more damaging to private enterprise than the admission that the policy of private firms is frequently to the interests of the great mass of the labouring class. The whole case for private enterprise rests on the thesis that the interests of capital and labour are really the same. If the interests of capital as a whole must be assumed to coincide with those of individual capitalist firms.

admitted as of equal weight to the capitalist's normal interest: i.e. a worker drawing a weekly wage of £3—£156 a year—is just as much interested as an investor whose interest at a normal rate of (say) 5 per cent would amount to £156 a year; in other words, an employee drawing £3 weekly would be deemed to have invested £3,120 in the undertaking and exercise precisely that amount of control which such a stock holding would give him.

Such a system may appear too rough and ready. Another suggestion would be the creation for every undertaking of "labour shares" equal in number to ordinary capital shares and equal to these as regards responsibility for management, but belonging to the whole body of the workers, not to the individual. Several experiments have been made in this direction, particularly in America, though labour and ordinary shares have never been in equal proportion. The precise form which this process should take is of course an issue of secondary importance. In some industries the trade union may be the best agency to exercise this sharing of control; in others, new machinery may have to be created; the extension of the movement may lead to complete reorganization of certain industries along guild or other lines. What is essential is that the State should hasten the process both by introducing it in all economic organizations that are under its own direct supervision and by making some measure of workers' control compulsory in organizations left to private enterprise. It need not specify details; it can accept as satisfactory any scheme that has the approval of the trade union concerned. Nor need it use direct compulsion; just as in the case of trade union labour it should be enough to refuse to extend the benefits and protection granted by the Public Companies Acts to any

undertaking that did not conform with that recognized minimum.*

Profit-sharing. Closely bound up with this question of workers' control, and, in fact, often confused with it, is the question of profit-sharing, which is frequently put forward as the ultimate solution of the labour problem. Strictly speaking, this is not the place to discuss it, since it belongs more exactly to the sphere of distribution than of production; but a few remarks may be placed here. Profit-sharing may be looked upon as a valuable reform in those cases where wages have been the most frequent cause of disputes; it has also the advantage of acting as a direct stimulant to effective production. But it should be observed, firstly, that it can take place at the expense of the community as a whole (excessive profit does not become justified by being shared between employers and employees) and be, therefore, socially wasteful; secondly, that it does not touch the root problem of the worker's self-respect; salary will not make up for lack of independence, any more than prosperity will indefinitely replace the absence of political freedom; thirdly, that it tends to destroy the independence of the worker, to tie him to a particular factory, and to lend itself to use as a premium

* The most complete legal recognition and definition of workers' control is probably to be found in the German law of 1920-1921. By this measure, any firm employing more than twenty people must have two elected councils, one for the manual staff, the other for the clerical. The councils do not directly interfere in policy but are to co-operate in all possible directions, and their executive committee is to be kept fully informed of all matters relating to wages, profits, turnover, and the general situation of the concern as a whole. No workmen can be taken on or dismissed without consultation of the council. The trade unions can send delegates to the meetings of the council, and no decisions or recommendations of the council are valid that run counter to any agreement made between the employer and the union.

(In addition to Plumb and Roylance, see Brookings, *Industrial Ownership*; Foster and Catchings, *Employee Stock Ownership in the United States*; and Lloyd and Austin, *Capital for Labour*.)

to strike-breakers. Without excluding the insistence by the State on profit-sharing as an element in industrial well-being, we cannot look upon it as final, or even as the most important of particular reforms.

Industrial Disputes and Their Causes. It would be futile to urge that the introduction of workers' control would automatically solve all the problems involved in industry. Under no system can the risk of disputes be entirely ignored, and the provision of machinery, particularly of conciliation courts, for the peaceful settling of disputes is undoubtedly an essential function of the State. How far such conciliation can be made compulsory is another and a very delicate problem. Of the *right* of the community to insist on compulsory arbitration there can be no doubt; but it is questionable whether arbitration can ever really be *forced* on any party. There must be an initial willingness to accept the award: and this willingness depends on a trust which only deep readjustments of our present order are likely to create. In other words, *compulsory* arbitration is meaningless if the parties involved can still fall back on the weapons of strike or lock-out; and to ask the workers to give up the organizations which give them the power of effective striking is surely to ask for the impossible in society as it is now. But the risks of conflict are very small when we consider how many disputes are caused nowadays either by the ignorance of the workers of the true condition of an industry, or by the attempts of employers to take unfair advantage of their superior economic strength. Greater publicity, intimate knowledge by the people vitally concerned, and a diffusion of responsibility in control should go a very long way towards removing present causes of friction and conflict. Industrial strife is, after all, the outcome of industrial injustice; the remedy is in our own hands.

CHAPTER X

SOCIAL CONTROL OF AGRICULTURAL PRODUCTION

To speak or not to speak on the State's function in relation to the land appears equally difficult. To pass the matter under complete silence involves the criticism of overlooking a most arduous and thorny question: to embark upon it is to incur the reproach of rushing in where experts fear to tread.*

Causes of Agricultural Depression. If, however, we avoid technicalities and strictly confine ourselves to general principles, some of the difficulties may disappear. There is, after all, at least on the present widespread agricultural depression, virtual unanimity among representatives of all parties on three important points. Firstly, the need for the State to have a clearly defined agricultural policy. There is no "Individualist" school of thought in agriculture: all call out for State help in one way or another.† They do not always agree as to how the State should interfere, but all agree as to the need for interference if agriculture is not to disappear entirely from these islands as an economic activity. Secondly, there is a general measure of agreement as to the main cause for agricultural depression: it is due to

* We do not propose dealing with the entirely different problem of urban land, except to say that ground rents have no moral or economic justification and should belong to the municipality, since their value depends on town extension, not landlord's enterprise; and that the only solution to the housing problem appears to us to be the municipal ownership of buildings as well as urban land.

† "Governments of this country have been singularly neglectful in the grasping of that fundamental fact: that the investment of State money, State credit, in State assistance to agriculture is in any country one of the soundest investments a country can make." (Lord Melchett's, *Industry and Politics*, p. 293.)

instability of prices. Not only do prices of agricultural produce fluctuate violently, but there is a steady downward tendency which, if continued, spells ruin to British agriculture. The problem is well expressed by Mr. R. R. Enfield, in his *Agricultural Crisis* (page 201): "Food is produced in greatest abundance in summer and autumn, in good seasons rather than bad, whilst people consume it approximately at the same rate all the year round. From this fundamental disharmony between supply and demand there is no escape . . . Hence the inherent instability of any agricultural system. . . . Nature unfortunately does not manage her affairs on principles of economic harmony, and those who would propose an agricultural policy whilst still adhering to the belief in the free play of economic forces are confronted with a hopeless dilemma; for such a policy, however it is framed, must lead to a continuance of these price fluctuations for ever—so long as summer follows winter and winter summer."

There is, finally, a general agreement that much more food can be actually grown in this country than is now produced. "In 1913 we were importing £200,000,000 of foodstuffs which could be grown in this country," said the Minister for Agriculture in June, 1920, and reformers of all parties would agree with him.

What the State Should Do. This being so, the following declaration as to what the State should do for agriculture, although drawn up by a party commission of inquiry, represents a statement of aims which many would accept without serious demur—

"The right function of the State with regard to agriculture," says the Report,* "would seem to be—

* "Land and the Nation" (*Liberal Inquiry Report*), pp. 210-211.

“(a) To create conditions of land tenure which will give actual workers on the soil the utmost freedom and encouragement.

“(b) To preserve full opportunities of access to the land for those who are best qualified to use it.

“(c) To protect agricultural land from misuse and to conceive clearly and steadfastly a policy for making full use of its agricultural land.

“(d) To bring into agricultural use any land capable of cultivation, and not at present cultivated.

“(e) To organize on behalf of agriculture education, research, and other activities which agriculture cannot generally organize for itself.

“(f) To act in a sense as the representative of agriculture in dealing with other interests at home and abroad which are more compactly, and therefore more efficiently, organized.

“(g) To give agriculture the full benefit when required of its national credit resources.”

Methods of State Action. Agreement as to the end in view does not, however, constitute agreement as to the method by which that end will be achieved. The Liberal Committee believes in the nationalization of the land itself, the State becoming the sole landlord, but leaves agriculture itself to the private enterprise of the farmer, who would become a perpetual leaseholder as long as he used the land well. “We want,” says the Report, “to change tenure-at-will and tenure-at-chance for tenure-for-good-husbandry.” They do not believe in a widespread desire for small freehold farms. “The model system,” said Mr. Lloyd George, “is not ownership but tenancy on a good sound estate.” Security of tenure for the really competent farmer is to the Liberals the key to the problem, and this cannot be

done under a system of private ownership.* Conservative writers, such as Mr. Dampier-Whetham† and Mr. Enfield, do not see the need for any drastic alteration in our land laws, but believe efficient distribution to be the real issue; marketing must be organized, and they would not be hostile, anti-socialists as they are, to a considerable measure of State control over the middleman and to a great development of farmers' co-operation. The Labour Party, as could be expected, favours the nationalization both of the land and of agriculture.‡ Those who say that this is impossible, that State control is the way to complete the ruin of agriculture, should be reminded that during the war the State successfully intervened "to dismiss the bad farmer from his land, to settle what should be grown, what pasture should be ploughed up and put under wheat . . . to the extent of compelling owners of land that was not being used to permit other people to grow foodstuffs on

* It should be noted that the Liberal Land Conference of 1926 altered some of the findings contained in the *Report of the 1923-5 Committee*, "The Land and the Nation," though nationalization of the land remains. See also "Liberalism and the Land," by W. McG. Eagar, in *Liberal Points of View* (1927): "It is a delusion to think that land monopoly is no longer a force pressing on English life" (p. 129).

† *Politics and the Land*, 1927. It contains a lucid and not unsympathetic criticism of the Liberal and Labour proposals. See also Orwin and Peel, *The Tenure of Agricultural Land*, 1925, for an "advanced" Conservative view; and note the following statement of Lord Bledisloe, Parliamentary Secretary to the Ministry of Agriculture, in 1923: "Unless the landlord justifies himself, nationalization is inevitable; public opinion will demand his extinction. Most landowners have been for the last two generations mere rent receivers, and have possessed neither the knowledge nor inclination personally to administer their own estates, still less to cultivate them on commercial lines."

‡ *Labour Policy in Agriculture and A National Rural Policy* (Labour Party Offices).

§ A. E. Davies and D. Evans, *Land Nationalization* (p. 12). See also F. E. Green, *A New Agricultural Policy* for a full account of the State's agricultural policy during the war. It may be noted that

The end of the war has not saved agriculture, and without going into further details we would say that the State must regain the powers to do the following things—

1. To prevent land being used for pleasure when it is needed for growing food.

2. To give to competent farmers absolute security against ejection and increase of rent.

3. To prevent the actual wastage in distribution and what often amounts to the exploitation of the farmer by the middleman.

4. To study methods of price stabilization.

5. To establish satisfactory conditions of life for the agricultural labourer.*

If these ends can be achieved without nationalization, well and good. They will not be achieved, however, without the creation of an Agricultural Council with very wide powers—to which one must expect strenuous resistance from those who want to “do what they like with their own.”†

Mr. E. F. Wise states, in the *New Leader* for August, 1926: “Undoubtedly important as the nationalization of the land is, drastic handling of the question of marketing and price is just as urgently needed. In actual practice the toll of the middleman and the merchant is a very much heavier financial burden than that of the landlord.”

* See on this point Mr. Robertson Scott’s striking study of the farm worker’s conditions in *The Dying Peasant* (1927).

† It should be noted that the (Conservative) Bill of 1920 went a long way towards achieving this end; but the clause continuing the Government’s power of control of cultivation (although termed essential by the Prime Minister) was cut out by the House of Lords; and a few months later a fresh Act put an end to the guarantee given to the farmer for four years that the State would cover the difference between ascertained market price and the estimated cost of production. At the same time the Wages Boards were abolished. “Everyone felt they had been had, and they had been.” (Rt. Hon. F. D. Acland, *Essays in Liberalism*, p. 230). It may, in fact, be doubted whether anything will ultimately avail short of a National Board entrusted with “the bulk purchase and importation of food-stuffs from abroad, and the marketing of both the domestic and the imported produce.” (Cole, *Next Ten Years*, p. 267.) Mr. Cole considers it “far more important to foster market-gardening, poultry

Agriculture Cannot Stand by Itself. One point needs stressing, however, before we end this very brief and inadequate survey, and that is the impossibility of separating agricultural from industrial conditions. We speak of agricultural depression, due largely to the low prices obtained for agricultural produce; and we discuss this remedy or that; but the root cause is not the lowness of those prices in itself, so much as "the disequilibrium between the prices of agriculture and those of manufactured articles, so that the farmer must pay dearly for the manufactures he buys, and only obtains relatively low prices for his own products. . . . While industry and commerce should be in a position to consume largely and frequently agricultural products, they can only survive and develop if agriculture has the power to absorb manufactured goods and thus provide an outlet for industrial and commercial activity."* Any measures therefore that will remove barriers to industrial prosperity will be stimulating agricultural development; any improvement in agricultural conditions will have a favourable reaction on industrial activity. There are no such things as economic water-tight compartments, either between nations or within a nation.

We are particularly conscious in this chapter of having only touched upon the fringe of an enormous problem. We have said nothing of the numerous ways in which ignorance or selfishness on the part of landlords can impede social and economic progress. There is, in fact, no department of life in which the notion of the rights of property needs such drastic revision.

keeping, dairying, pig-breeding, and similar rural services than to attempt the impossible task of expanding the acreage under wheat, or the intensity of its cultivation," pointing out that "on imported" meat alone we spent in 1928 nearly twice as much, and on imported butter and cheese just as much, as on imported wheat and flour. (*Next Ten Years*, p. 255.)

* *The Economic Consequences of the League*, pp. 46 and 140.

CHAPTER XI

SOCIAL CONTROL OF DISTRIBUTION

WE said in an earlier chapter that the improvement in economic standards and the removal of the most glaring defects of our present system lay more in the control of production than in any far-reaching attempts at a redistribution of existing wealth; but this does not rule out the need for considering what can and should be done by the State in this sphere.

The Inequality Problem. The first necessity is to realize clearly the existence of a problem. The following estimates as to the present distribution of wealth in this country are taken from Professor Clay's address to the Manchester Statistical Society, in February, 1925, and illustrate what we mean—

94·5 per cent of persons have 56 per cent of the national income.

5·5 per cent of persons have 44 per cent of the national income.

96·2 per cent of persons have 17·22 per cent of the national capital.

3·8 per cent of persons have 82·78 per cent of the national capital.

As we do not suppose that anybody would question the approximate accuracy of these figures, or seriously doubt the wrongness of the state of things they reveal,* we shall confine ourselves to the practical question as to what the State can and, therefore, should do to redress the wrong they reveal.

* We assume in other words that large inequalities of income make for social unrest and instability, and that generally speaking influences are to be welcomed that tend towards equalization. Countries like Denmark and Switzerland are striking instances of this fact. (See on this point "The Influence of Distribution," in Clay's *Economics for the General Reader*, pp. 429-436.)

Control of Wages. There are evidently two possible methods of action. The State can endeavour to direct wealth into new channels as it is produced, by seeing that the daily result of production goes into the pockets of those who have so far been receiving less than they should: this could be done by the regulating of profits and of wages. The former has already been alluded to in another connection; as to the controlling of wages, much undoubtedly remains to be done, but, even admitting that large amounts go into dividends that should go to wages, it may be doubted whether any adjustment on this point would make such differences as would really create a new society.

It may be taken for granted, however, that some form of control, or at least of supervision, of wages is now definitely recognized as one of the duties of the State, particularly where trade unions are not sufficiently powerful to carry out the task for themselves. To quote the Ministry of Reconstruction: "One thing is certain. The question of wages will never be allowed to return to the position of ten years ago, when the Government had no concern in it. . . . A reasonable standard of wages must be a first charge, perhaps *the* first charge."* We need only add on this point the belief of many industrialists, to which we have already alluded, that high wages (with increased production) benefit the employer quite as much as the employee.†

Transfer of Wealth. The other and more obvious

* *Reconstruction Pamphlets*, No. 19, p. 14. Cf. also Keynes, in *Liberal Points of View*, "The State must be prepared to regard the regulation of the wages of great industrial groups as being not merely of private concern." p. 215.

† "There has always been too great a fear of higher wages. Higher wages must carry with them a greater degree of production and efficiency. On the other hand, higher wages ought to bring with them a greater consuming power; and that is an aspect which has been overlooked." (Lord Melchett's, *Industry and Politics*, p. 42.) See also Austin and Lloyd, *The Secret of High Wages*.

method by which the State can control distribution is by taking wealth from the pockets of those who have it and transferring it to others, either by direct payments (old age pensions, unemployment allowances, increases to wages) or by using it for purposes of communal enjoyment or utility (free education, free libraries, parks, etc.).

This transfer of wealth is usually done by various forms of taxation, which is, in fact, nothing but the forced transfer of property from the pockets of the individual to those of the State. It raises, therefore, in its most acute form the problem of the rights of private property. We have already dealt with this, and need only repeat here that wealth being ultimately a social creation, no individual's insistence on his right to "keep his own" can avail against society's claim.

Unassailable as is the right of the State to make this transfer of wealth, it must nevertheless be shown that the real interests of society make this transfer desirable in the interests ultimately of the individual himself. In other terms, it must be proved that in taking this wealth the State is fulfilling its own true purposes, that it will use it for those purposes, and that those purposes will best be fulfilled by State rather than by individual action. The rightness or wrongness of a particular tax cannot therefore be argued by any reference to interfering with private property—or by use of such terms as robbery or confiscation. These terms, as the war finally showed us, are irrelevant to the real issue.

Taxation. There are, however, two kinds of taxation that must be carefully distinguished. The one is what we normally mean by the term: the taking of money by the State as payment for services rendered. This taxation may be direct or indirect; it may be levied scientifically or haphazardly; it may be excessive, i.e.

the services rendered may not be thought to be worth the money. But in all such cases the State is simply being refunded for what it has spent, and, generally speaking, this expenditure has taken place on matters admitted to be of common utility. We may, of course, quarrel as to what constitutes general utility; some (who usually have themselves been to good schools, have money to buy books, and own large gardens) consider education, libraries, and parks to be a sheer waste of public money; others regret the millions spent on armaments; but it is generally agreed that taxation for those matters is one of the obvious duties of the State. The form of taxation with which we are now concerned, however, aims deliberately at using taxation for a better distribution of wealth. It does not seek to reduce taxation to a minimum, nor does it look upon it as an irremediable evil; it believes in the high taxation of the rich for the express purpose both of making the poor richer by providing them, directly or indirectly, with some of the things they have so far not been able to enjoy; and of making the rich poorer, so as to make the balance more even.

It is difficult, of course, to draw an exact line between taxation for revenue and taxation for redistribution; the instance we gave of free education, free libraries, public parks, insurance, allowances, may be termed border line cases. All "social expenditure" may, in fact, be termed partly redistributive. It is evident, for instance, that the "endowment of motherhood" is ultimately a measure of wealth distribution. The real point is the ultimate purpose at the back of the mind of the taxing authority.

Few questions are more likely to arouse storms of bitter controversy in the near future than the desirability of "distributive" taxation, the main platform

of Socialist policy. Anyone who has followed us in our argumentation will realize that we cannot hold such taxation to be either wrong in itself or outside the scope of the State's functions. Practicability and results form the only test. It is evident that distributive taxation is only possible in a community where the Government, as a result of a highly developed social conscience, has at its disposal effective methods of ascertaining both the amount and the location of existing wealth. (It could be carried out in Great Britain far more effectively than in France.) As to consequences, these doubtless need careful watching, both economically and socially, but we should guard against the argument that a particular tax will ultimately diminish the total social wealth. We have already stated that a moderate amount equally shared may be more productive of real social happiness than a large amount unevenly distributed, with the subsequent jealousies and unrest. Therefore a tax which tends to equalize distribution may be defensible, although it may discourage a particular form of wealth production and thereby diminish the total wealth of the country.

Bequest and Inheritance. There is yet a third method of effecting a redistribution of wealth, and that is by interference with the freedom of bequest. We do not refer to high death duties, or even to the complete taking over by the State of all estates in excess of a certain limited amount: these are but forms of taxation and do not constitute a separate problem.* But the State may intervene, not indeed to confiscate, but merely to direct a fortune into channels undesired by

* See on this point "Liberalism and the Problem of Inheritance," by H. D. Henderson, in *Liberal Points of View*. The writer's view is that "differences of wealth come more from inheritance than from private gain," and that death duties are really the key to the problem of distribution.

its owner; it may forbid the bequeathing of money outside the family; it may forbid the breaking up of landed estates; it may, on the contrary, enforce the equal distribution of wealth among all the owner's children, as is done in France by the Napoleon Code, to prevent the building up of huge individual fortunes. It need hardly be said that such a policy stands or falls by the same arguments as are used for or against distributive taxation; it is a difference of method, not of principle.

We must, however, return in conclusion to the point made at the beginning of this chapter. If it be thought that big inequalities of wealth and the accumulation of large private fortunes are undesirable, it is in the stage of production that action should be taken. Production should be organized so as to prevent such inequalities; if social need replaces private profit as the directing principle of economic activity, the need for interference in distribution will largely disappear. We are thus led to the somewhat paradoxical conclusion that the greater the field of private enterprise in production, the greater will be the necessity for the social control of distribution.

CHAPTER XII

INTERNATIONAL INTERDEPENDENCE OR NATIONAL SELF-SUFFICIENCY

WE seem to have assumed all along that national prosperity, both material and moral, was entirely dependent on the policy and conduct of the State and its citizens, and that this policy and conduct only affected the nation itself, thus ignoring as it were the rest of the world. Such an assumption was essential for the sake of clearness, but it is time to remind the reader that the economic functions of the State are not limited to its own borders: in a world of closely interdependent countries there is no action, no measure, however apparently restricted, which does not in some measure affect the whole world. What is true of America is the experience of all civilized people: "The more the doctrine was preached that she (America) must leave Europeans to stew in their own juice, the more she discovered herself stewing along with them. The time had passed when any one nation could live unto itself. It could not even die unto itself, for the whole world would then be changed to a body of death, from which a mortal infection would flow to the rest. This was the new experience to America. Trade knots us to other lands, finance calls us, common problems of health bind us. Quickened intercourse and interchange make it impossible for us to live apart. For us not to be willing to share and to co-operate is to shrivel and die."

Obstacles to Real Freedom of Commercial Intercourse.

There is in fact probably no one of any standing in the economic or political world who does not pay at least lip service to the doctrine of economic international interdependence; and the World Economic

Conferences, held under the auspices of the League of Nations in 1927 and 1930, reiterated it in numberless forms in the course of their discussions. But it is a long way from such vocal assertions to the full practical realization of the implications of that truth, and the Reports of the Conferences show that the members of the Conferences themselves are under no illusions as to the length of the road to be travelled before the goal is reached of European—let alone world-wide—free trade. The trouble is that the material realities of interdependence conflict with the deep-seated and natural desire of most national groups for independence; and independence, in the economic sphere, means self-sufficiency—self-sufficiency of raw materials if possible, but at least self-sufficiency of manufactured articles. This may mean little or no foreign trade; it may involve less wealth and prosperity, but at least it will mean freedom. “Henry VII,” said Chancellor Bacon “bowed the ancient policy of this realm from considerations of plenty to considerations of power,” and we have there in a nutshell the essential difference between what are indeed two contradictory conceptions of society. (Their expression in the purely economic sphere tends to be the policy of free imports as against that of protection, but, as we shall see, free trade and protection do not exhaust the matter.)

The Case for Interdependence. The free-trader believes in “plenty.” His aim is economic prosperity; whereas his protectionist opponent seeks power or security. In Great Britain, where the issue has been obscured by considerations of party and of persons, it is particularly necessary that the real issue of free trade and protection be clearly grasped and irrelevant considerations eliminated. In its essence, the free trade argument is an extension to the nation of the economic

principles that govern the life of the individual within the nation. Experience has shown that the best results were obtained by leaving every individual free to choose his livelihood, and particularly to specialize in one definite branch of economic activity. Freedom of contract and division of labour lie at the root of modern national economic life. In the same way, each nation should concentrate on those forms of economic activity that are best suited to its natural circumstances. An island country will develop its shipping: a coal-producing country will be mainly industrial; if a country is both these things it will necessarily depend on its foreign trade; it will have to import raw materials for manufacture, and import the food that its members will not be producing, while other countries will be producing that food and those raw materials they have in abundance, and leave manufacturing and shipping to those countries that are better able to carry them on. Further, just as the individual is left free to buy and sell in the most favourable market, so the nation should buy and sell freely, and eliminate import and export duties, the only effect of which is to disturb the natural exchange of goods, according to the elementary law of supply and demand.

At first sight the argument of "plenty" may seem somewhat materialistic. But the free trader can argue with much truth that this is only an appearance. In effect, free trade makes for peace, and is therefore essentially a moralizing influence. What are the practical results of free trade? It eliminates tariff wars; it emphasizes international interdependence; it makes away with many causes of conflicts as those waged for control of raw materials or trade routes. In a word, it repudiates the idea of trade being looked upon as a form of war.

The Case for Self-sufficiency. The protectionist replies that all this is very well in theory, but that the free trade argument forgets two essential realities: firstly, that while free trade might profit the individual it ignores the nation; secondly, that, as a matter of fact, in the modern world trade *is* war.

The protectionist is essentially a nationalist, giving that term its widest meaning. He starts with the nation, not the individual, as the fundamental unit of the modern world. Nothing, therefore, that is detrimental to the nation can be right. Now to him the nation's essential need is independence, power, security. Wealth and prosperity are secondary issues. It may, indeed, be cheaper to buy foreign goods, but it is more urgent to manufacture those goods at home, in order to make the country independent of the foreign producer. It may be profitable to sell in the dearest market, but it is undesirable to export raw materials that may be vital to the national life and might aid foreign competitors in peace, and particularly in war. It may, indeed, be true that all members of a nation have a common interest that allows of free trade within the nation; but it is a fallacy to argue therefrom that all nations have common interests; they have not: they are competing units, and competition means war. It follows from this that the thorough-going protectionist will not be seriously shaken by being shown that his policy is injurious to his country's prosperity: he replies that prosperity is not his criterion. Much less is he moved by the possibly disastrous effects of that policy on other countries: he replies that he is not concerned with the prosperity of other countries; in fact, he does not wish his country's rivals to prosper.

Self-sufficiency and Nationalism. The true answer to the protectionist's arguments is surely to question his

fundamental assumption, namely, that self-sufficiency is not only desirable but possible. What the story of post-war Europe shows is that this self-sufficiency policy is not only so disastrous materially as to endanger the very existence of the country that pursues it, but is really a will-o'-the-wisp, outside the reach of human endeavour. The nearest approach to such self-sufficiency was probably made by France during the Great War; yet she had to import in vast quantities, and is now crippled with a burden of debt of which payments for those imports are a large part. To quote once more the Economic Conference Report: "This effort to attain self-sufficiency cannot hope to succeed unless it is justified by the size, natural resources, economic advantages and geographical situation of a country. There are very few countries in the world which can hope to attain it. The artificial increase of plant which is only partly employed has meant not only uneconomical and costly production but also a wasteful use of the world's capital resources. It has thus been one of the causes which have maintained an abnormally high rate of interest in recent years. It should be added that so long as unduly high tariffs are maintained, this uneconomic use of capital continues and creates an increasing number of vested interests which resist a return to a sound policy." In a word, the doctrine of national self-sufficiency wrongly assumes that the political unit is, or can become, an economic unit—an assumption that must spell disaster in nine cases out of ten.

As long, however, as the political philosophy of nationalism remains unshaken, economic self-sufficiency—or at least the minimum of dependence on imports, and therefore high tariffs—will remain the policy of many States, particularly among those whose political

independence has been but recently achieved. It is, after all, but the counterpart in international relations of the hitherto accepted economic maxim that competition is the rule of life, and self-interest the main personal incentive. Either co-operation is a rule of general application or it is a fallacy, and those business men who stand for economic individualism can scarcely object if nations apply that same principle to their own destinies. The analogy is not perfect, and free trade may be in a sense the logical expression of free competition in international economic relations; but the fundamental attitude towards life of the believer in unrestricted competition at home and of the champion of self-sufficient nationalism abroad is ultimately the same. If the latter has to learn, in the words of M. Lammers,* that above national sovereignty lies "the sovereignty of Europe as a whole in economic matters," the former will have to learn that above the gains of the individual lie the gains of society as a whole—and both lessons will involve a drastic revision of hitherto accepted economic theory and practice.

International Economic Agreements. Free trade and protection do not, as we said, exhaust the whole problem of economic self-sufficiency. The most protectionist of governments may find its policy largely thwarted by the personal doings of its nationals. No tariff barriers have as yet been able to prevent the building up of numerous international business

* "In the Committee on Commerce, M. Serruys said that all trade barriers should be done away with, but with certain reservations as to national sovereignty. I feel, however, that we should take into even greater consideration the sovereignty of Europe as a whole in economic matters. Again, M. Loucheur referred to the political security which would first have to be established before it would be possible to arrive at a solution of the economic crisis. I consider, however, that political stability and security depend to a very marked degree on the economic situation." (M. Lammers, 1927, *Economic Conference Report*.)

agreements, of which the Franco-Belgian-German Steel Cartel is one of the most recent instances. Capitalists have always freely invested in the concerns of other countries, without troubling very much as to the possible effect of such investments on the welfare of their own. Some undertakings have become frankly international, such as the Royal Dutch Shell Combine for petrol, the North Atlantic Shipping Pool. These agreements and undertakings cut across the protectionist policy of national self-sufficiency without necessarily helping the free trade ideal, since in each country they tend to ask for protection against possible competition.

The ideal of independence is also hindered by the way in which governments have entered upon agreements that bind their hands in a variety of ways: we need only mention here such things as international regulation of patents and copyrights, of certain highways, such as the Danube, the Elbe, the Rhine, the Scheldt, as agencies of international trade such as the Post Office system, and, last but not least, the numerous agreements, many of them concluded through the International Labour Office at Geneva, which are direct limitations of State sovereignty in economic affairs.

Social Classes and Internationalism. Nor must we forget the way in which certain divisions of economic classes are tending to cut across national divisions. At the present moment this tendency is most noticeable among industrial workers, and is largely identified with Socialist parties. Now Socialism tends to have an international economic policy of its own. It is doubtless hostile to nationalist protectionism, but it is by no means wedded to pure free trade. The Socialist thinks it mistaken internationalism to allow the importation and purchase of foreign goods made under bad industrial conditions—sweated goods from countries where the

worker is inadequately protected against exploitation—or to encourage trade with States pursuing an avowedly anti-Socialist policy. In countries, such as America, where the worker has obtained a high standard of life as a result of protection, the Socialist would think twice before he advocated a free trade that might lower this high standard. Again, the removal of tariff walls as advocated by “big business” is one thing; as urged by Socialists in the interests of the workers it may well be another.

The upshot of it all is that it is probably only a matter of time before economic self-sufficiency be generally recognized by most States (regretfully, perhaps) as totally impracticable. The danger is, however, that this time be not reached before the pursuit of this aim has caused virtually irretrievable damage to the delicate structure of international trade. The erection of artificial barriers is recognized to be at present the greatest hindrance to the return of general prosperity, and formidable obstacles have to be overcome before they disappear.* To know that their maintenance is certain to bring ultimate ruin to their builders is no consolation to those who are suffering from them now. Here, as in the political sphere, one wonders whether common sense and peace will win their race against prejudice and war.

* “Nationalism and the effort to maintain self-sufficiency are still deeply rooted, and the industries set up artificially under this effort will fight to the bitter end for their existence. It will be a long and hard fight” (Count de Moltke, Denmark). “Vested interests have grown up in favour of the maintenance of the present disequilibrium” (Mr. A. Loveday, Great Britain).—From “The Economic Consequences of the League” (*Report of World Economic Conference*, May, 1927). For a graphic description of existing barriers, see Sir W. T. Layton’s paper, “The Free Trade Movement in Europe,” in *Liberal Points of View*. Present-day Germany has 3,200 separate duties, Italy 3,372, Belgium 3,098, France 8,000, and Haiti 13,800!

CHAPTER XIII

MARKETS AND RAW MATERIALS

THE search for self-sufficiency is not the only source of international economic strife. Some reference, however brief, must be made to the question of markets and of raw materials.

Already acute before the war—and itself one of its causes—the problem of markets has become still more serious since the war. One of the main results of the war has been, as we all know, to intensify industrial production. Many countries began during the war the manufacturing of goods which they previously imported, but could not obtain during hostilities; the war over, they found it virtually impossible* to dispose of their new industrial plant and to turn to other channels the labour thus employed. But the problem, as we said, was not new. Given modern methods of manufacture, a struggle for markets becomes inevitable. Mechanical processes mean large-scale production, and this, under the present system of wealth distribution, necessitates markets larger than the home market; so does the tendency to re-invest in industry the profits of industry. Steam and petrol transportation make distant carriage of goods easy and profitable. There are thus few countries whose industrialists are not endeavouring to obtain ever-extending markets for their goods, and calling upon their governments to help them in this search. Hence the universal race for markets.

* Largely, as we remarked in the last chapter, through the opposition of vested interests in these new and usually artificially maintained industries. (See *Report of the World Economic Conference.*)

There is, however, another side to the question. Just as keenly as they seek for new markets, the same industrialists seek to keep out the productions of other industrialists. They do not want their country to be a market. Hence their demand for protection on purely economic grounds, joining on to the more political protectionism already demanded on nationalist grounds.

Conflicting Interests. We thus get a double process, by which many an industrialist tends to be a protectionist at home and a free trader abroad. In many cases he finds it worth his while to obtain the lowering of a hostile barrier by making concessions at home to some other industry. Tariffs become instruments of bargaining and the notion of trade as competition and war grows, and tends to dominate national policies. But that is not all: the very industrialist who clamours for a high tariff to keep out the goods he manufactures has often to purchase abroad his raw material, and consequently wants free trade for that raw material; but what is to him a raw material is often to other manufacturers a half-manufactured product, and the government that embarks upon the road to protectionism soon finds itself distracted by conflicting demands. The government's attitude will largely be determined by its conception of the true nature of national and individual welfare. If it has thoroughly grasped the truth that "international trade is normally and properly not a matter of victory or defeat, or profit of one at the expense of the other, but of mutual benefit,"* it will refuse to be drawn into tariff wars and into the artificial stimulation of industries that are not really the natural manifestation of national economic activity. It will base its policy on the principle that "the exchange of products between persons of the same country or of

* *Report of World Economic Conference, 1927.*

different countries is normally to the advantage of both parties; the greater the range of exchange of different products between those who by their resources and capacities are best fitted to produce them, the greater is the general economic advantage . . .” But all this involves some form and degree of social control over production, the mere consideration of private profit not being, as we saw in an earlier chapter, an adequate criterion of the utility or otherwise of an industry to a particular country.

War and Trade. The main consideration to be borne in mind, however, by any government is the utter futility of war as a means of furthering trade. It is perhaps scarcely necessary to make such a statement in the year 1931; but while no country would probably go to war deliberately for that end, there are indications that the dangers of the struggle for markets as a cause of international conflict are not always adequately recognized. Wars for markets have been frequent in the past. The wars of Louis XIV with the Dutch were caused by his determination to obtain the free entry of French goods into Holland, and Napoleon’s campaigns were to a large extent wars for markets, i.e. wars to force on reluctant continental countries a blockade of English goods. Of later years, wars for markets took a different form. It became clear that wars could no longer force a particular economic policy on a country: European markets were clearly defined; little could be done to alter them. But there were outside Europe many new lands, just opening to civilized trade, and the race for markets became the race for colonization. “Occupy undeveloped territory and thus obtain the exclusive right of selling therein” became the motto of the great Powers in the last years of last century. So district after district passed into the sphere of influence

of the great colonizing powers. Even nations with a diminishing population and but little export trade, such as France, insisted on having their share of Asia and Africa, and in a comparatively short time there was scarcely a corner of the globe that had not had to assert its independence by force of arms or had not passed under somebody's "protection," usually after a war. Such wars were, of course, not confined to the colonizer and his would-be subject; they often involved competing colonizers; the Hispano-American war for Cuba, the Italo-Turkish war for Tripoli, the scramble for Morocco and its connection with the Great War, all show the part that the need for markets has played in international rivalry. But just as conquest for economic exploitation has now lost all meaning, so has conquest for the opening of markets. "You cannot, with armies, ships, guns, compel a people to buy your goods if they have not got the money, and they cannot have the money unless they themselves can sell goods!"*

Nationalism and Raw Materials. Closely allied to the question of markets is that of raw materials. It is unnecessary to enter here into the technicalities involved. We all know that most countries use in their manufactures substances or articles they do not actually produce, and which they must buy elsewhere; raw materials thus have often to be imported, and our country, reversing her usual attitude, here appears as the buyer of what others are prepared to sell; we are, in fact, particularly deficient in most of the raw materials we need for our manufactures.

Some raw materials are widely distributed, and are only needed in small quantities, but some of the most necessary are only to be found in a few definite areas. Some again—minerals in particular—only exist in

* Sir Norman Angell, *International Affairs*, 1931, p. 72.

definitely limited quantities ; however large the supply, it will one day be exhausted. Coal, iron, oil are obvious instances ; and in some cases existent supplies are virtually useless because of difficulty of access or of exploitation. Other materials have their supply limited by climate (sugar, rubber, wheat), or by other conditions ; it has become unprofitable to grow wheat in urban districts—however fertile the land, it pays the landlord better to build than to sow.

Even from a purely economic standpoint it is difficult to ensure a fair, equitable distribution of essential raw materials, but the problem is not purely economic. The prevailing nationalistic policy of self-sufficiency demands that a country shall not alienate its supplies to a possible enemy, and shall do its utmost to secure such supplies as it does not possess by nature. The problem of raw materials thus becomes a problem of national and international politics.

Oil. In the case of oil, for instance, Great Britain and America control most of the world's supplies. France, in particular, is conspicuously absent, and much of French post-war diplomacy has had for its object the obtaining for France either of some of the unappropriated supplies, or of some shares in existing concerns. She is anxious to obtain some of the Mesopotamian oil, and many of her political moves in the Near East have been with that end in view, while she alleges that the whole of British Near-Eastern policy has been directed to the maintenance of a British monopoly of Mesopotamian oil supplies.* It is worth noting, however, that petrol supplies without control of sea routes will be useless in time of war, Russia and the United States

* See Fischer's *Oil Imperialism*, and M. Delaisi's *Oil*. The Anglo-Russian Parliamentary Committee has issued a useful—if partisan—pamphlet: *The Burning Question of Russian Oil*, by W. P. Coates.

being the only two great Powers owning their own oil-fields; so that much of this fight for oilfields is wasted time, except for Great Britain, who has the sea power and needs oil for the very ships that are to control sea routes in war time.

Further, it must be remembered that new substitutes for oil may be discovered which will revolutionize the fuel problem as much as the discovery of the internal combustion engine.

Coal and Iron. The development of oil traction must not lead us to forget the importance of coal, not only as the source of direct steam power and of indirect power by gas and electricity, but as an important source of industrial products (coal tar, ammonia, aniline dyes) and of explosives and munitions. Although more widespread than oil, coal is by no means evenly distributed: Germany and Great Britain are the only coal-producing countries in Europe, and most of the world's coal is carried in British ships. Hence the intense competition for any hitherto unappropriated coalfields (e.g. those of the Saar, or of Korea and Siberia), the French attempts to secure German coal (occupation of the Ruhr), and the Polish-German dispute over Upper Silesia.

For iron we note again the overwhelming supremacy of the United States, except for the possession by France of rich iron deposits in Lorraine. As iron and coal need each other, the centres of the steel industry have tended to be near coal mines, and we see since 1860 a steady attempt at uniting the Lorraine iron to the Ruhr coal now solving itself by an agreement of the French ironmasters with the German coal-owners.

Closely allied to mineral supplies are vegetable and animal products. Their supply does reproduce itself, but only as a rule under certain conditions of climate

(e.g. cotton, of which the United States still provide half; or rubber, 69 per cent of which is under British control, while the United States absorb 77 per cent of the total supply—a reversal of their usual position!)—so that here, again, there is acute competition for those goods.

Raw Materials and International Competition. Thus we have a repetition of what we saw in the fight for markets—desperate attempts made by the chief powers to secure for themselves land containing hitherto undeveloped sources of essential raw materials, with the parallel attempt to keep to itself those materials it possesses. Hence, on the one hand, diplomatic or forcible attempts at annexations, or at least at “concessions,” and, on the other, embargoes, duties, control by government monopolies.

We are therefore once more faced with the question of self-sufficiency as a desirable aim for a country; in other words, with the consequences in the economic sphere of what is really a moral problem. Should a country obtain a certain material cheaply abroad, or produce it at great cost? Should it make great diplomatic sacrifices to obtain control of some essential product? Or should each country be encouraged to develop its raw materials and trust to others to supply its own needs?

It is essential to bear in mind that much of the nationalist argument assumes a non-existent financial patriotism. It is a vast mistake to think that producers will sell exclusively—or even more cheaply—to their own fellow-countrymen, or that companies will not allow shares to be bought by citizens of any countries. This brings us back to a point made in a previous chapter, namely, the part likely to be played in the future by business internationalism. Whether it be oil,

steel, tobacco, there is no combine on which several nations are not represented. Business interests, in a word, cut across policies dictated by political nationalism.

Food Supplies and National Policies. Closely allied to the problems of raw materials is that of food supplies. Just as certain countries depend for their manufactures on raw materials which must be obtained from abroad, so are certain countries dependent on others for their food supplies. In both cases an essential vital need of the country can only be met by the goodwill of another.

The problem of food supplies is, of course, the direct result of the enormous growth of the world's population since the Industrial Revolution. This is not to say that this growth of population need cause a shortage of food; it would be taking us too far to discuss the population problem, or the question as to how far inadequate development of economic resources be not the real difficulty, rather than shortage of land for food supplies—so that under-development would be a more exact term than the usual one of over-population. Be that as it may, it is certain that at the present time few nations are entirely self-supporting as regards food-stuffs; and here again the policy of the “free breakfast-table” is opposed to the ideal of the self-contained, self-feeding nation.

The question is, then, the attitude to be adopted by each State to the problem of obtaining for its members the food and raw materials which it cannot produce and which are essential to their physical and economic life. Now it can adopt one of three attitudes—

1. It can make self-sufficiency its aim, and try to secure by diplomacy or conquest or economic policy the most complete control possible of such resources.
2. It can rely on its capitalists and industrialists to

secure an adequate share of such resources, trusting for this to the economic laws of supply and demand.

3. It can boldly support a policy of international control and division of essential foodstuffs and raw materials. This is the only policy which seems to us compatible with the idea of international co-operation and world peace, and we look to the League of Nations to make possible such an equitable distribution of the world's resources. It is in fact the logical international counterpart of any attempt at a fairer re-partition of wealth within the country. It was actually done during the war by inter-allied councils, and what has been done can surely be done again.

Conflicting Policies and Principles. For the present the matter is in abeyance. A Franco-Italian proposal was made and rejected at the Peace Conference to the effect that "the allied and associated countries should agree that henceforth the raw materials of industry should be entirely free of both import and export duties," and the League Provisional Economic and Financial Committee contented itself by recommending that "raw materials produced in one country being in many cases essential to the economic life of other States, should not, unless in exceptional cases, be the object of restrictions or of different regulations of such a nature as to injure the production of such States or to impose on them a systematic inferiority." *

It will be seen that two contradictory principles are involved: first, the right of a nation to dispose of resources it already possesses; secondly, the right of a nation to claim a share of resources possessed by another, both these principles ultimately involving the fundamental problem of national sovereignty in the economic

* Quoted in Moon's *Syllabus of International Relations*, pp. 185, 186.

sphere. We can only repeat in conclusion that the obtaining of raw materials and essential foodstuffs is likely to be an increasing cause of international rivalry, unless a solution of the problem be immediately sought for along the lines of a new conception of international solidarity and co-operation.*

* For a more detailed and illuminating study of the issues studied in the last two chapters, we would refer our readers to M. Delaisi's brilliant essay, *Political Myths and Economic Realities*.

CHAPTER XIV

ORGANS OF SOCIAL CONTROL

THE conclusion of all these chapters is the need for the conscious control by the community of an economic life of which, in Mr. D. H. Robertson's happy phrase, "unconsciousness is the mark." As he goes on to say, "The most obvious economic problem which confronts the inhabitants of any country or of the world as a whole does not appear to be submitted to any deliberate or conscious decision at all. That problem is to determine how the limited natural resources of the community, its limited flow of savings, its limited equipment of human brains and hands, is to be allocated between the infinity of uses in which they are capable of yielding a harvest of enjoyment. In the main this momentous decision is left to the operation of what are vaguely termed 'natural forces,' acting through the desires and activities of disconnected individuals. . . . Value or price stands at the centre of this system or lack of system. . . . Various agencies, notably the powers of Finance and of the State, are sometimes more concerned than would at first sight appear with the major problem of industrial government, the proper allocation of society's resources between different uses and occupations." There are, indeed, as he calls them, "islands of conscious power"—in the factory, in certain industrial combinations, in marketing processes: but these are but small patches. Unconsciousness still prevails.*

* "The normal economic system works itself. For its current operations it is under no central control, it needs no central survey.

And what of the results of it all? We shall give it in the same writer's words: on the one hand, in spite of all the wealth produced, there are many unsatisfied wants: "The luxurious fancies of the rich exert a stronger pull on the productive resources of the community than the stark needs of the poor"; on the other hand, unemployment. We may well wonder, in fact, how so haphazard a system works at all, and pride ourselves on its results being no worse, but we must not allow ourselves to forget both its wastefulness in human and material resources and its failure to secure a prosperous and contented community.

There is, therefore, an increasing consensus of opinion that it is no longer possible to leave either to uncontrolled individual decisions or to unchecked economic forces the determination of the economic life of the country, of what shall be produced, and how, of the manner in which shall take place the distribution of the results of productive effort.

We have seen in preceding chapters exactly at what points and in what manner this work of control and co-ordination is to be carried out; we must now ask exactly by what methods and through which organs this control is to be actually exercised. We have spoken of State, Municipality, Trade Union, Employers' Federations—are we just assuming various extensions of the existing powers of these bodies, and their permanence in their present form? Or do we imply

Over the whole range of human activity and human need supply is adjusted to demand, and production to consumption by a process that is automatic, elastic, and responsive. . . . Since the rude shock of war broke this machine, the world has been looking for the supermen who made it and controlled it, for those who understood it both in its basic principles and its infinite details, and could therefore re-fashion and re-model it to the new conditions. It has not found them. They do not exist." (J. A. Salter, *Allied Shipping Control*, pp. 16, 17.)

profound modifications of our political and administrative structure?

Capacity of the State for Adaptation. The first point that must strike any close student of our institutions must be their extraordinary capacity to adapt themselves to an enormous extension of their functions, economic and otherwise. Not only has the present State, both in this and every other country, taken on during the last century or so economic duties that would have seemed incredible to our ancestors, for whom economics was, in the main, a department of life altogether outside political interference, but all this happened without any change in the fundamentals of our political institutions. And if we consider the years of the Great War, the contrast is, needless to say, greater still. The same Parliamentary machine that reluctantly consented to some rudimentary factory legislation a hundred years ago became, in fact, mainly a great economic organization. The war was a huge experiment of State Socialism, railways and shipping, coal, food supplies, and all important raw materials such as wool and leather being controlled. Conditions were, of course, exceptional, and it might not be altogether fair to draw from them strong arguments for the continuation of the system in peace time: certain articles had to be produced at any cost, regardless of their real economic value; and the taxpayer was there to meet the bill of production costs. There was no longer the problem of harmonizing supply and demand, of anticipating market conditions; ordinary economic laws seemed suspended. This state of things could obviously not continue: at the same time it must be remembered that many students of economic problems, while admitting that circumstances were abnormal, hold nevertheless that what the State was able to do in the

war it could do in time of peace, provided it had the same willing support of all classes of the community.*

Putting aside, however, any arguments to be drawn from the war, either for or against State Socialism, it must be admitted nevertheless that the State has shown a greater capacity for the taking over of economic functions than would have been generally expected some fifty years ago.† This is not to say that such functions might not have been exercised better under private enterprise, but that the State, including therein both central and local organs of government, has shown itself perfectly capable of economic administration on a large scale,‡ and that the fear of some industry being controlled by a committee in Whitehall rather than by a board of directors is a by no means universal emotion. But to leave the matter there, and simply urge the transfer to the State of such activities as are not to be left in private hands is no final solution of the problem. We must deal, however briefly, with the existing widespread dissatisfaction with the present structure of the State as an adequate organ of economic function.

Consumers v. Producers. One of the common criticisms of the present political organization is that it is really designed and run both by and for consumers

* See, amongst others, Sir Leo Chiozza Money, *Triumph of Nationalization*.

† For a good summary of this see the opening pages of the *Liberal Industrial Inquiry Report*.

‡ The State has been known to act as owner of land and house-property and methods of communication; as owner of forests, workshops, factories, warehouses, cold storage depots, grain elevators, markets, abattoirs, theatres, picture galleries, museums, libraries as producer of raw materials, minerals, food, drink, tobacco, light and power; as contractor of public works, retailer, tourist agency, hotel-keeper, sport caterer, bookmaker, banker, pawnbroker, educator, doctor, speculator, commercial traveller, advertising agent, publisher, insurance office, undertaker, trustee. (A. Emil Davies *The State in Business*.)

rather than producers. We think more of what things cost to buy rather than what they cost to produce: our geographical constituencies group us far more according to the place and manner in which we spend than according to our position in the world of production. Nor can it be said that this matters little, since we are all of us producers as well as consumers; for this is not the fact. To begin with, many people (even hard-working folk) are not economic producers at all: the "liberal professions" are really maintained by those who produce, because they are thought necessary to Society's well-being, but they are not direct producers; nor, of course, are all those whose income is derived from unearned sources, even if they try to make some return to the community in exchange for their free board and lodging. Further, many people who are in fact producers (for instance, all those with fixed salaries) look at life far more from a consumer's than a producer's angle; and it has been said, with much truth, that the world is now witnessing a kind of revolt of producer against consumer.*

That, of course, is not the whole story. Any study of economic factors in the past shows that time after time, and in a variety of ways, the forces of production have exerted a powerful and often determining influence on political life. We need only instance the long periods in which the political machine has been entirely in the hands of the landed interest, whether of aristocracy, squires, or peasant owners—or the way in which industrialists have in fact transferred that power into their own hands in most western countries—to see that this alleged "monopolizing of the picture by the

* "Syndicalism, Protection, Nationalization—various schemes in which producer, and in particular industrial producer, is attempting to show his dissatisfaction. He feels the consumer is monopolizing the picture." (Elliott, *Toryism in the Twentieth Century*, p. 94.)

consumer" must be considered a serious exaggeration. It is, in fact, possible to reverse the picture, and to show in the co-operative movement, consumers' leagues, and anti-profiteering legislation a revolt of consumers against the tyranny of monopolies and trusts and all enterprises run for private profit rather than for public service.* What is true, however, is that we have a new factor in the conscious and open attempt of economic forces, if not to control political institutions, at least to be recognized by them. The hold which landed or industrial interests had on politics in the eighteenth and nineteenth centuries was only partly conscious and rarely avowed; the economic forces of to-day, whether of employers or employees, of producers or of consumers, are publicly marshalled, and their programmes are for everyone to read; these imply, as a rule, that the political organization should either leave to them the virtually unchallenged control of the economic life of the nation, or that it should be remodelled so as to embody them as integral parts of the social mechanism.

Between extremist supporters of syndicalism and of *laissez-faire* there lies a vast and ever-increasing mass of public opinion that recognizes the necessity and inevitability of community interference in economic processes, but wonders if the present State structure is adequate to the task. Schemes of politico-economic reconstruction abound, from the modest suggestion of a second chamber elected on the basis of economic function, as a counter-balance to the purely political House of Commons, to the more elaborate plans for a functional democracy culminating in the organization

* "We object to our undertakings being called public undertakings. We recognize the public character of the work we do, but we believe in private enterprise." (Lord Ashfield, Chairman of the London Underground Railways, 29th October, 1927.)

of the State on Guild Socialist lines—not to speak of the rebuilding of society on “Soviet” lines.*

Possible Bodies for Industrial Government. The various forms of social control advocated in these pages, while sometimes realized in direct State action, would probably be usually best carried out by *ad hoc* organizations, created for the specific function of coming between a too-distant State, an irresponsible producer, and a helpless consumer—semi-autonomous bodies, not working for profit beyond a legally limited interest on capital.† Between these bodies and the State might be an Industrial Council, to which Parliament would delegate the general supervision of specifically industrial questions, the regulation of competitive enterprise, the directing of nationalized undertakings, the supervision of (and possible arbitrating between) the industrial bodies just referred to. What is certain is that, in the words of Mr. J. A. Hobson, there must be a “common consciousness in dealing with our social problems, and this co-operative action demands laws, institutions, organs of common conduct (these, called machines). Rightly formed and employed they are not machines or even organs, but modes of spiritual co-operation.

* Good summaries of most modern doctrines are to be found in Collancez's *Industrial Ideals* and Joad's *Introduction to Modern Political Theory*. See also Cole's *Social Theory* and his *Next Ten Years*; the works of Professor Laski; the publications of the Plebs League, and of the N.C.L.C., etc.

† Such as the *Federal Reserve Board*, which sways the banking policy of the U.S.A., and the *Interstate Commerce Commission*, which fixes rates, consolidates into groups, regulates taxes of shares, orders the construction of new lines, controls in times of emergency, and administers surplus profits—both being appointed by the Government. Thus “the home of free enterprise has furnished us with experiments in positive State control on a scale which finds no parallel outside Communist Russia.” (Robertson, *Control of Industry*, p. 128.) The new industrial organization of Italy is also worth a close study as an interesting attempt at integrating trade union and employers' associations into the political structure.

exceeding far in their freedom and creative energy any of these lower instruments.”*

Whatever be thought of this proposed machinery, it is certain that we need some method by which the forces of organized labour (taking this in its broadest sense of all those whose livelihood depends on their positive contribution to society) can be integrated into the political system. This may be done by the “functional second chamber” previously alluded to; it might be done by the various councils just described. What cannot continue is the present system by which various economic forces, publicly organized and fully conscious of their wants, but disunited and with divergent aims, endeavour to secure the control of the political machine in antagonism to each other, tending to transform political parties into scarcely disguised class organizations. Let us, at any rate, face squarely the new problem of the increasing superseding of purely political by politico-economic issues.

Need for Central Authority. But while admitting to the full this dominance of the economic factor in present-day life, we must remember that economic problems are not the only problems a society has to face, and that purely economic institutions cannot be an adequate expression of a full common life. Under any industrial system there must remain a measure of external control which only the State can exercise. No guild or any other body or individual can be trusted with the unrestricted, unchecked governing of any industry: too many conflicting interests are involved, which demand co-ordination by some external authority; too many changes and readjustments have to be made which only a body representing the whole community can adequately

* Hobson, *Conditions of Industrial Peace*, p. 116. See also later for the suggestions for an Industrial Council.

carry out.* We may admit, as we said, that considerable alterations in the existing structure of the State will be necessary for it to exercise those functions (and the extent of those alterations must depend on the scope of the amount of social economic control which we deem necessary), but however deep these alterations may have to be, the need for the co-ordinating authority must remain. The problems at issue are too vital to society as a whole for society to divest itself of its duty of control either to capitalist, or to trade union, or to guild, or even to co-operative movement or municipality. In fact, it may be argued that in the present state of economic international interdependence no single State can be trusted with the control of its own economic policy. This, however, is another question, and it may well be answered that full national social control is an essential preliminary condition to international control. What matters here is to bear in mind the primary need for an organ acting on behalf of the whole community, not merely in the purely economic sphere, but in that where economic considerations cannot be separated from those of the general national welfare.

The economic functions of this central authority will be three-fold: to assign each department of economic life either to private enterprise or to some agent of social control, which agent may be the State itself or some other publicly constituted body; to secure that in those departments which are to remain in the hands of competing organizations real competition shall prevail, and to organize those economic activities which it has taken into its own direct charge.

* Such as, for instance, the balancing of conflicting agricultural and industrial interests. On the forthcoming struggle between the "Red" and the "Green" proletariat, see Haden Guest's *Struggle for Power in Central Europe*, 1917-1921.

Defining the Sphere of Private Enterprise. First of all, then, the State must define the proper sphere of private enterprise. While it is probable, as we have seen, that a great deal of what is now in private hands will have to be brought under the direction of State, municipality, or some other public authority—particularly in those industries that fulfil an essential service, have a virtual monopoly and yet claim an impossible freedom—yet there remains a vast sphere of private enterprise, particularly in those domains where great variety is desirable and where marketing is difficult.

Having defined the sphere of private enterprise, we must next make competition within it real, i.e. based on genuine superiority in productive methods, ingenuity, quality of workmanship—and prevent price-cutting by such devices as longer hours, lower wages, shoddy material, hasty construction, and a great deal else that goes by the name of competition, and which all believers in a sound private enterprise wish to destroy. As Mr. Keynes says: “Under modern conditions the wastes and expenses of cut-throat competition and the beggar-my-neighbour business which we used to applaud so whole-heartedly are so devastating that every great and prosperous industry spends half its time in trying to get rid of them,”* so that the very guaranteeing of competitive conditions involves a great deal of direct interference, or at least of what Mr. Keynes calls “Society taking an intelligent control of its own affairs.”

There is really in our present system much less competition than we often admit. Where it is supposed to be competitive, it is rarely so in actual fact. The world is not really based on competition, but on co-operation ;

* Keynes, *Liberal Points of View*, pp. 210, 211.

the money-maker competes indeed with other money-makers, but within the limits of an economico-political system based on an elaborate credit organization which is in its essence co-operative; constant efforts are being made, by trusts and combines, to limit the effects of unchecked competition, and it may in fact be said that "modern civilization is a vast system of co-operation, incidentally competitive, with outbursts of excessive competition."*

How extensive the sphere of private enterprise will be must depend in the long run on three factors: firstly, on the natural resources of the country. The smaller these are, the greater will be the need to check waste in all its forms, overlapping, large individual profits. Conversely, apparently inexhaustible natural resources seem to allow unchecked private enterprise to develop with the minimum of evil results in the material sphere. (The United States of America is the obvious instance of such a country.) It may be added that a mainly agricultural people are more likely to be averse to social control than an industrial nation. This brings us to the second factor—that of national character: the social control of industry demands a great capacity for collective action, efficiency of organization, and high traditions of service and honesty, not only among its officials, but among all those who are in positions of responsibility. In a word, it postulates advanced standards of civilization and a great deal of social discipline, combined with individual capacity for initiative and responsibility. This means a high level of education, both intellectual and moral, of which more later. Thirdly, and perhaps chiefly, it must depend on the use which private enterprise has made and is making of its freedom. It cannot be gainsaid that it is now on

* Collier, *Economic Justice*.

its trial, and that its worst foes are some of its most ardent—and injudicious—defenders. It will succeed in retaining its function as one of several forms of industrial activity provided that it is able to adapt itself to the growing demand for service rather than profit. In the words of one who believes in private enterprise, organized for service: "These narrower beliefs (in profit as the basis of industry) are unpractical, in that they are entirely opposite and incompatible with the conditions of sound *moral* in any body of men, and that they do not form a system adapted to capture and hold the loyalty of the masses, but that on the contrary they contain within themselves disruptive forces which must destroy the efficiency of a system resting on them."*

Education as a Condition of Social Control. It may well be asked whether the social control of economic processes we have been describing is either psychologically or practically possible in a society such as ours, and to this we would answer that certain essential conditions have undoubtedly to be fulfilled for such a control to be in any way effective: those conditions can all be summed up in the word *education*—giving to this term, as we shall see, several distinct though closely connected meanings.

Taking first the ordinary technical use of the term, we shall certainly need a far more developed education than what is now given to the great mass of the people. We need not go over again the familiar arguments as to the place of education in a democracy, the necessity for raising the school age, the wisdom of such expenditure as may be necessary to secure for each child a really adequate preparation for life and for each adult the fullest opportunities of extending his education

* Creedy, *Human Nature in Business*.

right through life. By education we mean here both general training and technical equipment,* but particularly the encouragement of what we may call "culture," that is, the development of each individual so as to give him the chance of making of his leisure the best use of which he is potentially capable—remembering that in an era of industrialism and machinery it will often be in his leisure rather than in his daily work that a man will be making his real contribution to the life of his day.

The Question of Incentive. Intellectual equipment, however broadly conceived, will not suffice; any society must ultimately rest on the moral quality of its members, and the greater the call to an individual share and responsibility in the control of affairs, the greater the dependence on that moral quality. In other words, the extension of social control in the sphere of economics demands a deepening of the economic morality of the mass of citizens.

Social control, based though it be on conceptions of individual rights and personality, does presume a certain readiness to sacrifice immediate apparent gain to the real welfare of the others—not indeed of an abstract whole, but of toiling men and women. It rests in other terms on the negation of the current assumption, on

* We do not wish to stress the difference between these two. A technical equipment, given the right way, may be a truly liberal education; on the other hand, we would emphasize Lord Melchett's statement that "the cheap efficient education which has been provided by the State for the Danish farmer and his child has done more for Danish farming than anything else." (*Industry and Politics*, p. 293.) This truth is capable of wider application than either Denmark or farming: at the same time it is not irrelevant to add that technical training may prove the solution—the only solution, perhaps—of the problem of agricultural depression; nor must we forget that important and paramount as are industrial problems, there remains much to be said for the old contention (exaggerated as it was in such a book as Henry George's *Progress and Poverty*) that "the basis of the State lies in land." (Cp. J. M. Kennedy, *Tory Democracy*, p. 191.)

which our present economic theory and our industrial system rests, that gain or profit is the one reliable incentive to human energy.* We wish to challenge the whole conception of human nature upon which this assumption is based.

If we cast a look at the world around us, we see many men in many walks of life, who work hard for no outward reward beyond that of a salary that most "business-men" would despise. Doctors, scientists, lawyers, and judges, military or naval officers, civil servants, are well aware, when entering upon their profession, that they have little chance of ever earning as much as £1,000 a year. (Some of those professions, it is true, offer a certain security which is not to be found in business, but by no means all.) Further, these men will often greatly exceed the number of hours they have contracted to work; they will often give their services freely; they will voluntarily display in their work a conscientiousness which industry despairs of obtaining save by rigid supervision or by the attraction of large gains.

It is usual to take these obvious facts as a basis for a comparison between the "professions" and "business," which is all to the detriment of the latter; and we are urged on all sides to try and introduce the professional spirit into business. The professional man, we are told, makes the service of the community his aim; the business man is out for profit; what is wanted is to make the business man look at business just as the professional man looks at his profession, and you will have built your economic organization on a new and more moral basis. That idea is to be found in books as different as *Industry and the State* and Tawney's *Acquisitive Society*.

* "The essential character of capitalism is the dependence upon an intense appeal to the money-making and money-losing instincts of individuals as the main motive force of the economic machine." (Keynes, *End of Laissez-faire*, p. 50.)

To a certain degree, all this is true; and we believe that must be, in a sense, the real aim of all industrial organization as of each individual career—the substitution of service for profit as the real justification of the economic order. Further, we believe that men will respond to the stimulus of service to a far greater extent than pessimists allow, and that the great mass of those engaged in industry are infinitely better than the assumptions on which the system is based. We believe also that work is more natural to man than idleness; the experiences of an unemployment crisis show that the great mass of workers miss the work in itself, and not merely for the salary it brought; so that while the dole may have removed the fear of starvation, it has left unsolved the psychological problem created by an idleness which few men enjoy. Work under proper conditions is not a curse but a blessing—and if life could so be organized that the necessities of life could be supplied to all without working, the great mass would nevertheless feel unsatisfied without work; there is, in other words, an inner incentive which might almost be relied on to supply the essential needs of the world by “voluntary” effort.

And yet, we doubt if service is the key word to the situation. We do not think it is primarily service which the teacher, doctor, engineer, seeks in choosing a profession in preference to industry. It is rather, to our mind, creative self-expression. It is because of the scope the profession gives to a particular bent of his mind that he turns his back on the chances of large gain to take it up. It is because his work becomes an expression of his full personality that he clings to it, that he accepts rigid standards of professional conduct, that he almost lives for it.

The Need for Self-expression. Now we believe that

profit can be eliminated as the basis of our economic life in so far as our economic organization can be so adjusted as to give each man and woman adequate opportunity of self-expression. This self-expression can be sought in a variety of ways: a much larger share in the framing and control of industrial policy, self-government in industry, a more direct connection between industry and the meeting of essential needs—all these are possible lines of approach. After all, it is a trite remark that what is sought by the great captain of industry is not wealth for its own sake, but the power it gives—very often the sheer interest of making it. To believe that industrial research, inventiveness, initiative, depend in the long run on the facilities they bring for acquisition is a serious misreading of human motive. That any industrial organization must give adequate scope for the man of ambition, the inventor, etc., is obvious; but that material gain must be the incentive is, we believe, wrong.

And if it be pointed out that in a highly industrial society much essential work will have to be done of a highly monotonous nature, giving no real scope for self-expression, the only reply is that in that case, as we said a moment ago, the worker will have to find such expression in leisure—as indeed many people do now—and that leisure will have to be in direct proportion to the inadequacy of expression in work, and will thus become the incentive to the adequate performance of such duties.

If this view be seriously challenged,* we confess that a great deal of our argument falls to the ground, but

* As it is in the following extract from a recent speech by the leading business man of a great Lancashire engineering and cotton-weaving town, now the Mayor-designate—

“Socialism was a desirable ideal, and he would tell them why Socialism would fail; it omitted that all-important factor, human

we admit that the ideal of work for service, and even of work as a form of self-expression in the right sense, presupposes moral education, an admission that the ultimate values of life are not material but spiritual. As Mr. Keynes says in the essay just quoted*: "The most deeply felt divisions are likely to be waged not round technical questions, where arguments on either side are mainly economic, but round those which for want of better words may be called psychological or perhaps moral."

After all, all economic life and processes depend on the value we give to things—and mind is an essential element in the formation of those values, so that deep spiritual changes would produce economic revolutions, and it can further be argued that unless this universe be a moral chaos, co-operation for a common good will ultimately create a more materially prosperous universe than conflict for selfish interest.†

nature. I have been determined to get on in the world. I have made sacrifices, and I have done a great amount of hard work. For what reason? I tell you candidly it was not to benefit the community in the first instance; it was to benefit myself. If anyone had said to me when I was a young man, 'Look here, young H . . . , you will have to work hard, to study hard, take big risks in business, work long hours, so as to excel in your line of business, and the whole of the benefit will go to the community,' I should have bluntly refused to do it. The incentive to work was reward. The Socialists said all were to work for the common good. That was bosh. When a man set out to work he set out to work for himself and not to benefit others. The Socialist State was absolutely impossible because it was contrary to human nature. Human nature at the bottom was selfish."

"Surely," adds Mr. C. Roden Buxton, who quotes this statement in a letter to *The Friend* of 22nd July, 1927, "such a speech by a man of high character as well as marked ability, must 'give us furiously to think.'"

* *End of Laissez-faire*, p. 50.

† See on this point, Gerald Collier, *Economic Justice*, p. 25-31.

CHAPTER XV

THE WORLD OF TO-MORROW

THE only way of drawing this study to a close is to bring out the chief points made in these pages, so as to make them stand as a challenge to our faculties of imagination and criticism ; for unless these respond, our work will have been in vain.

Reform or Revolution. Our first conclusion then is the necessity for some deep change as the only alternative to violent upheaval. The present industrial order stands on its trial. It is accused of having failed in its essential function of providing to the great mass of workers a wage adequate for the bringing up of a family. As the Archbishop of Liverpool stated in his pastoral letter of June, 1926—

“The poor have a right to live, and if private enterprise cannot give the worker an honourable existence, then another system must be sought that can succeed in so doing.”*

A further accusation is that of being based on the wrong incentive—of appealing to the desire for profit (or, if it be preferred, to the primitive instinct of economic self-preservation), and not to the equally potent and less widespread higher ideal of service to the community given in creative self-expression. As C. Roden Buxton pithily says :†

“It is relatively easy for a man who is paid a salary for doing a public service to put the motive of public

* These may not be the exact terms, as the quotation is re-translated from a French version.

† Letter in *The Friend*, 22nd July, 1927.

service first ; while for a man whose living depends on giving a large part of his thought and time to the problem of cutting out competitors—cutting out other people who are trying to do or supply the same thing—it is extraordinarily difficult, so much so that when this process is the mainspring of an industrial system, that system is morally warped ; that the bulk of mankind cannot help, under such a system, ‘putting money first’ ; and that the ‘change in public sentiment which would place business life in the same category’ as direct public service is, under such a system, impossible. It is a system which artificially stimulates the possessive or acquisitive impulses in our nature, at the expense of the others.”

If no alternative were available, it is conceivable that the present situation, abnormal and unnatural as it is, might yet endure some time. But numerous alternatives *are* at hand, and are, in fact, clamouring for adoption, and not the least insistent of these lies in the Communist challenge to the present order. For our own part we believe Communism to be based on bad economics and on a short-sighted view of human nature and development, but no arguments as to its intrinsic unsoundness will avail to hold in check the appeal it makes to workers who are neither economists nor historians, if it be the system that holds out to them the greatest hope of a fuller life, not material only but spiritual. Communism has become, in fact, a religious faith, and “the answer to the new faith is . . . the proof that those who do not share its convictions can scan an horizon not less splendid in the prospect it envisions, nor less compelling in the allegiance it invokes” *—“mend or end” is the choice offered to the present industrial system, and the greatest danger to

* Laski, *Communism*, p. 251.

our civilization comes not so much from the apostles of violent change as from those who refuse to face the present situation and meet its challenge with formulae and dogmas, such as "the sanctity of property rights" or the worship of an indefinable individual freedom, alternatives which are no less dangerous in their hollowness and unreality than appeals to class war and to the dictatorship of the proletariat. The present order may well ask to be delivered from its friends, and a bold readiness not only to accept but also to initiate and encourage great changes in our economic organization is the only adequate answer to the challenge of Marxism.

We do not mean by this to herald, as some do, the "inevitable breakdown" of the present system of capitalism or free enterprise. Nothing is "inevitable" which depends in the last resort on the decisions and wills of free human beings. The present system does work, at least after a manner—that is usually the supreme line of defence of its apologists; and if it shows itself capable of great improvements, sufficiently flexible to adapt itself both to new material conditions and to new moral demands—if, in other words, it can provide for the vast multitude an assured livelihood according to what is now generally recognized as the minimum standard of life compatible with existence as a civilized being, and if at the same time it can satisfy the growing needs of the social conscience—then capitalism—transformed indeed, but still rooted in freedom of individual initiative and enterprise—may well survive for many a long year. But if it be unable to effect this transformation, then it must be swept away in the ever-increasing flood of discontent and criticism.

Politics and Economic Transformation. Transformation is thus, we believe, the only alternative to

revolution. Voluntary effort can by itself do much in this direction, but—and this is our second conclusion—political action must ultimately take the greatest share in such a transformation, involving as this must new conceptions of property rights, of industrial ownership, of labour contracts, as well as a much closer control of economic processes by the community as a whole. The State, in other words, must expect a vast extension of its economic activities, and this is now so generally admitted as to be rapidly passing out of the sphere of controversy: “Uncontrolled industrialism produced an inhuman anarchy. It had to be controlled by the State, and I quite agree it may have to be controlled further,” says Lord Melchett. “We need deliberate regulation from the centre in all kinds of spheres where the individual is absolutely powerless if left to himself,” echoes Mr. Keynes; and a “Tory Democrat” agreed that “the State is inevitably destined to take over what are now regarded as ordinary branches of commerce, such as the railways, the mines, the canals, tramways, gas works, electric light stations, and possibly also the forests.”*

State action in the economic sphere is therefore solely a matter of degree, no longer one of principle—and by the side of direct State action we may expect a great amount of control of economic life by society acting through various agencies, some of which, such as trade unions, exist already, others of which, such as Mr. Hobson’s “Industrial Council,” may have to be called into existence in the near future.† Not only so, but as

* Lord Melchett’s *Industry and Politics*, p. 321; Keynes, *Liberal Points of View*, p. 216; J. M. Kennedy, *Tory Democracy*, p. 191.

† Mr. Hobson, in his *Conditions of Industrial Peace* (p. 6), urges the creation of a new Industrial Council charged with the following functions: (1) To secure subsistence wages and other minima conditions for workers; (2) to own and control the operation of a few

"function determines structure," so extension of function may well determine alterations of structure. Parliament as we know it may have to be extensively remodelled; new institutions may have to be created, and a body of legislation appear that will revolutionize many hitherto unchallenged conceptions.

The Need for an Open Mind. It is here, indeed, that the battle of to-morrow may have to be waged, and this leads us to our third conclusion, namely, the need for fresh creative thinking in the sphere of political theory, and for the formation, through education, of a public opinion free from prejudice and ready to accept the conclusions of that inquiry. We are constantly told that Democracy is upon its trial and, however reluctant some of us may be to admit it, we cannot ignore the challenge offered in many countries to the form under which it is most familiar to us, namely, the Parliamentary system. In some cases that challenge may be due to the fear of the "possessing classes" that Democracy may ultimately involve the upheaval of an existing economic order that is to their advantage—but it would be futile to deny that there is a widespread fear lest our present form of political democracy should prove inadequate to the control of economic forces which can no longer be safely left to themselves. Revolt against "bourgeois economics" in Russia, fear of Communism in Italy and Spain, financial crisis in several other countries, have led to a temporary or would-be permanent supersession of normal free institutions by open or camouflaged dictatorships of individuals, classes, or parties; and before such phenomena the ardent democrat will be well advised not to adopt an ostrich-like

essential monopolies; (3) to secure for the public revenue and communal services as large a share as is practicable of rent, excess profits, and inheritances.

policy, but rather to face the issue boldly and to realize that without abandoning any of the essentials of his faith he may have to seek for new organs of democratic expression, thus revising, in fact, much of his social philosophy and economic thought. The process may not be pleasant—readjustments and revisions rarely are—but it is essential. Hence the need for research by the expert and for such an education of public opinion as will enable it to accept the expert's findings, however much they may challenge current assumptions and cherished traditions.

International Interdependence. Among current assumptions and traditions, few are likely to come in for such drastic revision as those involved in current ideas of national sovereignty, independence, and self-sufficiency—and we reach here our fourth and last conclusion.

We have stressed in a previous chapter the fact of the economic interdependence of nations, but make no apology for returning in these concluding pages to the urgent need for a new outlook in international relations as the essential condition of national prosperity. Laying aside all moral, ethical, and spiritual considerations as irrelevant to our immediate line of study, we would insist once more on the absolute contradiction between prosperity and imperialism, nationalism, or any of the terms by which we seek to veil a conception of the world as a series of competing units—a conception that ultimately leads to war. We know by bitter experience “that military power—victory—cannot be turned to economic account in the modern world, cannot be used as an instrument to capture trade, nor ensure the economic security and welfare of the victor, nor even exact adequate indemnities. The notion that these things could be achieved by military power was

the great illusion.”* But though we hear less of violent conquest as a means of economic expansion, the struggle for the control of raw materials, of outlets to the sea, of strategic points continues. “Trade follows the flag” is still a tacitly accepted maxim, and the realities of economic relationships are still ignored. Of these realities the most fundamental is that economic rivalry means war, and war, even when successful, means an economic misery that far surpasses the possible loss of the particular source of wealth which the war was meant to secure. And if it be answered that there are political issues that can only be decided by the arbitrament of war, the only possible reply is that this would only vindicate the bankruptcy of politics and confirm the Communist in his claim that the control of the social machine must be taken over by economic forces, owing to the failure of politicians to accomplish the purpose for which they were entrusted with power, namely, to secure the orderly and prosperous life of the community. As Professor Laski says, “Society will not survive the devotion of weapons of creative life to ends of conflict. . . . The study of politics is an inquiry into the dynamics of peace.”

* Angell, *Foreign Policy and Our Daily Bread* (p. 9). In his criticism of Sir Norman Angell's first book, *The Great Illusion*, Prof. J. H. Jones points out that conquest may increase the free trade area of a country and thereby its total wealth. (*The Economics of War*, p. 160.) This is obviously true, but it may be pointed out in return that the same benefit accrues to a small independent State conquered by and annexed to a powerful neighbour, thus reducing defensive warfare to an economic absurdity. This “free trade area” argument is, in fact, a powerful plea for the complete abolition of those economic barriers which States tend to erect as essential expressions and symbols of their absolute sovereignty and independence; it is a welcome reinforcement of the argument here put forward that current conceptions of nationalism are ultimately incompatible with peace and prosperity. We need hardly point out that the Great War has mainly resulted in the breaking up of the large free trade area of the old Austrian Empire, and in the increasing of tariff barriers everywhere.

The League of Nations. It follows therefore that, on economic if on no other grounds, a well-advised State will do its utmost to support all principles and institutions making for the peaceful settlement of international disputes. It will consider as well spent any money going to constructive expenditure for peace, and grudge every penny going to war preparation, whatever political arguments may be adduced on its behalf.

We trust it will not be out of place to stress in an economic argument the cheapness of the League as an instrument of peace, and to quote the striking figures to which the "Economy Debates," held in Geneva in September, 1928, gave rise.

The total cost of the League to the whole world is just over one million pounds, i.e. but a fraction of the cost of a battleship, or of the cost of a day's war to this country alone. Great Britain's share is just over a tenth of that million—amounting to a halfpenny a head a year, as against a yearly expenditure of 370 millions of interest on war debt, of 115 millions on armaments, and of 60 millions on war pensions. As a statesman recently put it, the money spent on armaments in fourteen months would suffice to have paid our League contributions since the birth of Christ; while for that yearly halfpenny per head we get, as the *News-Chronicle* (then *Daily News*) strikingly put it (26th September, 1928)—

"A permanent organization constantly on the watch to prevent, or, at least, delay, the outbreak of war. Lord Grey himself has frequently declared that if the Covenant had existed in 1914 the Great War would never have come about.

"A financial organization which has put an end to the European currency chaos which played havoc with our trade for half a decade after the war, and is now

engaged in an attempt by international action to prevent fluctuations in prices, and, therefore, in employment.

“An economic organization which has already secured the removal of numerous import and export prohibitions, and recently set its hand to the task of endeavouring by agreement to lower tariff barriers and so help international trade in its recovery from the general slump which followed the war.

“An organization which is thrashing out and constantly bringing pressure to introduce uniform international labour standards.

“Organizations which have taken effective steps to deal with the white slave traffic: to produce uniform health regulations and prevent the spread of disease from country to country; to reduce passport formalities and increase the facilities of travel; have repatriated countless numbers of war prisoners; eased the situation in the Mediterranean by exchanging large blocks of population between Greece and Turkey, and are endeavouring to cope with the evils of the traffic in opium and noxious drugs.”

Economic Sovereignty and Peace. It is therefore an essential economic function of the State to adopt, with all its implications and revisions of hitherto-accepted assumptions, a foreign policy for peace. This may ultimately lead to an abdication of economic sovereignty into the hands of a supra-national economic authority—at least, this appears to some as the only real alternative to war and all its disasters.

In his *Economic Foundations of Peace* (Chapter XI) Mr. J. L. Garvin draws up a scheme for a “League of Economic Partnership” which may be taken as a minimum programme of peaceful international co-operation. This would include—

(i) Commercial interdict as the surest preventive of war.

(ii) An economic interpretation consistent with security and true patriotism.

(iii) Equal opportunities and an open door for all nations for raw materials and development.

(iv) Through traffic secured by a common management largely applied to the world's communications as a whole.

(v) Due safeguards against an increase of international trusts and combines tending to place in private hands an arbitrary power inconsistent with free government and sound economics.

(vi) Common action for dealing with international aspects of the labour movement.

What support of the League may ultimately involve in new conceptions of political sovereignty, in new ideas of co-operation, in fact, in peaceful revolution in the sphere of international relations, it is impossible to foretell. The one certainty is that the alternative to the policy for which the League stands—and which it can carry into effect if it has the support of governments and of public opinion—is conflict, war, and an economic catastrophe before which our imagination recoils. That the danger is not imaginary can be proved by the most cursory study of present-day world conditions and of the numerous problems that challenge the continuation of peace.

Conditions of Peace. In his recent book, *Olives of Endless Age*, Mr. Brailsford goes so far as to say that "the peace and progress of Europe demand that the idea of the State, which is still the idea of power, should lose its association with nationalism, language, and culture." To those whom this drastic condemnation of the nation-state would startle overmuch, we would at

least quote and endorse those proposals which Mr. Brailsford thinks must be adopted in our own generation if another world war is to be avoided. These include "treaties of unlimited arbitration, an extension and stiffening of the Mandate System, the handing over to the League of Nations by the national States of the protection and promotion of the trade and investments of its citizens beyond its borders, the international distribution and price regulation of raw materials and staple foodstuffs, the defining and controlling by the League of the rights of national minorities, national armaments replaced by the co-operative organization of modest police forces to be at the disposal of the League, and, finally, an effective League legislature. These, it may be said, are exacting demands. They presuppose the decay of national sovereignty. They require an international morality far beyond our present stage of evolution. They demand, in short, rather centuries than a generation for their adoption. It may be so. But in that case our fate will overtake us while we are admiring the slow progress of history. . . . Peace is the condition of our survival."

We thus leave the reader with these conclusions, somewhat dogmatically stated, to consider and criticize—namely, the need for industrial reorganization, the rôle of the State as the essential organ of that reorganization, the consequent probability of great changes in its structure, and the urgency of international economic co-operation, with all that may be involved of philosophical and economic reconstruction. We have called these things necessary to prosperity and peace—we have not said or implied that they are inevitable. Man is to a great extent the architect of his destinies, and can make of the world much what he will. Clinging to prejudice, being blind to facts,

ignoring realities, and, worse still, selfishly pursuing our own fancied self-interest, may lead to disasters in which this civilization may well perish as did that of the ancient empires of the East.* There is no inevitability of progress, either material or moral: on our individual courage, sincerity, and capacity for sacrifice will depend the future.

* In his address on Democracy, delivered before the University of Paris, Mr. H. G. Wells said there are three urgent problems: "How to establish enough political unity in the world to ensure peace; how to establish enough political unity to save industry and trade from becoming the mere preliminaries to a gamble with the exchange; and how to establish enough political unity to control and direct the distribution of raw products, employment, and manufactured goods about the earth. And we have no governments, we have nothing in the world able to deal with this trinity of problems, this three-headed Sphinx which has waylaid and now confronts mankind."

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